

Modern Insurance Tendencies

The Annals

VOLUME CXXX

MARCH, 1927

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THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE

3622-24 LOCUST STREET

PHILADELPHIA

1927

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EUROPEAN AGENTS

ENGLAND: P. S. King & Son, Ltd., 2 Great Smith Street, Westminster, London, S. W.
FRANCE: L. Larose, Rue Soufflot, 22, Paris.
GERMANY: Mayer & Müller, 2 Prinz Louis Ferdinandstrasse, Berlin, N. W.
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SPAIN: E. Dossat, 9 Plaza de Santa Ana, Madrid.

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EDITOR'S FOREWORD

THIS volume on *Modern Insurance Tendencies* is a successor to the volume on *Modern Insurance Problems* published by the American Academy ten years ago in March, 1917. That volume sought to record the outstanding changes and tendencies of the preceding ten to twenty years and enjoyed a wide circulation. The present volume aims to accomplish the same general purpose for the ten years that have followed. In fact, it was the continued demand for the first volume, even after such considerable lapse of time, that suggested the desirability of issuing a new and up-to-date volume on the same theme.

The changes wrought within the field of insurance during the past ten years have been numerous and important. Of outstanding significance is the remarkable increase in the volume of insurance as regards each of the three major types of underwriting, namely, life, property and casualty insurance. During 1925 American life insurance companies collected in premiums nearly \$2,384,000,000, casualty companies operating in the United States \$777,000,000, and property insurance companies of all kinds operating in the State of New York nearly \$1,787,000,000, or a total of nearly five billion dollars (\$4,948,000,000). Compared with the premium income of 1915, the 1925 figures indicate a decennial growth of 204 per cent for life insurance, 102 per cent for fire, marine and the other forms of property insurance, and 385 per cent for the various forms of casualty insurance. If to the preceding total there be added (1) the cost of insurance protection granted by the numerous property insurers not licensed to do business in New York, the numerous

municipal, state and Federal insurance funds along many lines, the many mutual aid societies and fraternal orders, and the large number of self-insurance funds along fire, marine, life, compensation and pension lines, and (2) the cost of the large volume of American insurance placed directly with unauthorized foreign insurers, the conclusion would seem to be justified that the American public is now contributing annually in the neighborhood of \$6,000,000,000 for insurance protection. Moreover, insurance companies in the United States now hold assets equal to about one dollar out of every twenty-five dollars of the nation's total wealth. A business of such magnitude naturally undergoes numerous changes in operating methods or types of service rendered, and is bound to face many problems of a far-reaching nature. The larger portion of the present volume is devoted to the discussion of such changes and problems.

Another notable tendency during the past decade has been the remarkable growth and transformation of some of the newer fields of insurance. Particular mention should be made of automobile insurance, "use and occupancy" or "business interruption" insurance, and the various forms of weather insurance. The first has grown from insignificant proportions ten years ago to a premium income of about \$350,000,000, and is confronted today with widespread agitation for compulsory coverage through legislative enactment. Business interruption insurance—protection against loss of profits and unavoidable overhead and fixed charges through the temporary or total interruption of business through fire or

some other hazard—is probably the most discussed subject in the field of property insurance at the present time. Its mission is so far-reaching economically that it is bound ultimately to become one of the most important types of coverages. In fact, its growth has been described “as knowing no limit other than the limit upon the income-producing ability of physical property.” Crop insurance against the adverse forces of nature,—hail, frost, storm, drought, excess rain, plant disease, etc.,—is also commanding serious investigation and experimentation in many quarters. It is of tremendous importance to the agricultural community, and has had the economic consideration of Congress in recent years. Five of the volume’s articles, it should be stated, are devoted to a discussion of the newer types of coverage that are looming large in the public estimation.

To an ever-increasing extent insurance service is also being directed towards the prevention of loss in the first instance. Formerly, the function of insurance was regarded primarily as “risk bearing,” whereas today the emphasis is more and more upon “risk prevention.” The latter function is distinctly gaining in importance as compared with indemnity. Prevention of loss in the first instance with respect to human life and property values is real insurance—probably the most important insurance activity of all—and from both the business and social standpoints should always take a place alongside of indemnity. As time passes, a larger and larger proportion of the premium income of insurers along all lines should be devoted in the interest of loss prevention. Practically all types of property and casualty insurers—fire, marine, bonding, compensation, steam boiler, credit, title, etc.,—are recognizing the service of

loss prevention and their natural obligation and fitness to handle the matter. More recently the same idea has also been assumed on a much larger scale by life insurance carriers, with a view to performing the same creative function in the conservation of the life value that property insurers perform with reference to property values. Not only is there a rapid extension of periodic medical examinations to policyholders, but the thought is being extended even to the surveying and rating of entire communities from a health standpoint. The service is beneficial to all parties concerned—the underwriting company, the insured, the beneficiary, and most of all society as a whole. Owing to the importance of the tendency, three articles are devoted to a discussion of the subject from the standpoints, respectively, of life, property and casualty insurance.

Lastly, attention should be called to the impressive way in which insurance has been recognized by American universities and colleges during the past decade as an integral part of their educational program. At the same time numerous company and agency courses of study have also been started with a view to educating the vast field force that serves as the principal connecting link between the insuring public and the home offices. At least seventy-one universities and colleges are now offering separate courses in insurance. About half of these first adopted such instruction in 1920 or thereafter, about three-fifths since 1918, and about three-fourths since 1915. Thirty-nine of the aforementioned institutions have extended their instruction so as to devote separate courses to one or more of the major divisions of insurance, thirty-eight offering a course in life insurance, thirty-five in property insurance, and nine in casualty insurance. As a

further development, mention should be made of the fact that nine institutions of higher learning require an insurance course for all of their students in business, that one additional university proposes to adopt the same plan in the near future, that three more, although not requiring the course, nevertheless strongly recommend the

same to all their students in business subjects, and that four require such instruction of all students specializing in financial subjects. Such progress is indicative of the increasingly high regard for insurance as an institution designed to promote individual and social welfare.

S. S. HUEBNER.

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The Rôle of the Life Insurance Company in Health Conservation Programs

By LEE K. FRANKEL, PH.D.

Second Vice-President, Metropolitan Life Insurance Company

THE goal of the life insurance company today is to bring to fruition the promise of the Psalmist,—“The years of our life are three score years and ten.” The health activities of insurance companies may prove to be one of the causes which will bring to pass his further statement, “And if by reason of strength they are fourscore years!” From the viewpoint of society, no purpose could be more important than prolonging life; from the standpoint of insurance companies, none could be more economically sound. Because this problem of life conservation is so significant, it may prove interesting to record the progress which has been made in the last decade and to outline possible future developments. In a paper appearing in this publication in March, 1917,¹ I gave the reasons which made health conservation, community social work of the utmost value and good insurance practice. All that I said, then, holds equally true today.

Twenty years ago, except for the requirement of physical examination designed to select suitable risks, insurance companies paid little attention to the health of policyholders. Now many activities are undertaken undreamt of a decade ago. Periodic health examinations of apparently well persons is being popularized; the attention of the man on the street is being directed to the rules of hygienic living;

public health work has made notable progress; sanitary regulations are well enforced—water and milk supplies on the whole are adequately safeguarded. Diseases about which we know the origin and methods of treatment are well under control. To secure these results insurance companies have heartily co-operated.

PREVENTIVE MEASURES

Realizing the preventability of disease and the savings which might accrue from health education, life insurance companies, both here and abroad, have embarked upon ambitious health conservation campaigns. It is difficult to conceive of a more promising program, especially if, as has been estimated, from one-third to one-half of the deaths occurring annually may be prevented or at least materially postponed.

One of the most useful disease preventive measures is periodic health examination. Many insurance companies are now offering it to policyholders. This constructive activity may add five years to the life expectation of the average person between the ages of forty-five and fifty. The Metropolitan Life Insurance Company was among the first to offer this service. In 1914, it authorized the Life Extension Institute to examine certain classes of policyholders in its Ordinary Department. Up to 1926, 223,500 examinations had been made.

Other insurance companies followed suit—forty-two insurance companies are now using the facilities of the Life

¹ Lee K. Frankel:—“Conservation of Life By Life Insurance Companies,” *The Annals of the American Academy of Political and Social Science*, Volume LXX, March, 1917.

Extension Institute. Among them are the Guardian Life, the Penn Mutual, the Western and Southern, etc.; likewise many smaller ones. Companies granting this privilege are found in all parts of the country—in Kansas, Illinois, California, North Dakota, Arkansas and in Canada. A number of companies, including the National Life and Accident of Nashville, the Alabama National, and the Southland Life of Dallas are using other facilities of the Life Extension Institute and are broadcasting and publishing material supplied by the Institute. The John Hancock Mutual Life Insurance Company, the Provident Mutual and the Equitable of New York give free examinations through their medical examiners. The Missouri State Life has announced that it will offer free health tests to policyholders, irrespective of the amount or plan of policy.

The Metropolitan Life Insurance Company has carefully analyzed its experience with the Life Extension Institute. The histories of 6000 individuals examined during the first years and their progress to July, 1924, were studied. There was a saving of eighteen per cent in the expected mortality. The greatest saving in mortality occurred at the ages between forty and sixty. Marked reduction in mortality was found among those suffering from fairly serious impairments. About 1400 individuals had disabilities so grave that they would have been rejected for most forms of insurance. Nevertheless, this group gave a ratio of actual to expected mortality of only eighty-two per cent of the American Men Table. Apparently these policyholders had profited by medical advice—in no other way could this favorable showing be explained.

Equally promising is the extension of nursing service to sick and disabled policyholders. The Metropolitan in-

stituted nursing service for industrial policyholders in 1909. Recently the John Hancock Mutual Life Insurance Company organized a similar service. The West Coast Life Insurance Company, the Aetna, and the Travelers' offer nursing privileges to group policyholders.

Publication of health literature is another important activity of insurance companies. The kinds of health booklets issued are too varied to enumerate. The Metropolitan has published a fairly complete elementary health library of more than one hundred pamphlets. Very striking is the work of the Travelers' Insurance Company along safety engineering lines. It publishes a monthly bulletin devoted to safety—its theory and practice. The Prudential, the Connecticut General, the New York Life Insurance Company, the Guardian, the Northwestern Mutual, and the Equitable Life Assurance Society, issue health literature. The National Reserve Life of Topeka employs a professor of physical training to prepare bulletins on keeping fit.

GENERALIZING HEALTH PROPAGANDA

The health propaganda of insurance companies is utilizing the facilities of modern civilization—radio, magazine and newspaper publicity, nursing service, health exhibits, research bureaus, the refinement of statistical methods, the public school system, and motion picture films. The Metropolitan Life Insurance Company conducts a daily gym class over the radio. More than 200,000 letters were received in the first year and a half requesting exercise charts. The Southland Life Insurance Company of Dallas has been broadcasting daily exercises since 1923. The Company estimates that 30,000 people are doing "the daily dozen" under its direction. The Union Cen-

Industrial Life Insurance Company of Cincinnati, Ohio, is broadcasting a health program Sunday evenings. The Travelers' Insurance Company of Hartford, Connecticut, has its own broadcasting station. Included in its general radio program are talks on health subjects, safety lectures and material suitable for school children.

Two companies have prepared motion picture films on diphtheria. The John Hancock Mutual Life Insurance Company's film depicts the dangers of diphtheria and the method of protection through toxin-antitoxin. The Metropolitan Life Insurance Company has a historical film, "New Ways for Old," which contrasts the treatment of diphtheria in 1860 with the modern preventive methods of today. The Metropolitan has two other films—one, "Working for Dear Life," which shows the benefits to be derived through periodic physical examinations; another, "One Scar or Many," deals with smallpox. Over seven and a half million people have seen these films. A film dealing with the dangers of overweight is in preparation. The Prudential Life Insurance Company has health slides which are suitable for distribution in schools. Some of the casualty companies have safety and fire prevention films. The Modern Woodmen of America, a fraternal organization, has made a two-reel film, "The Man Who Came Back," showing the tuberculosis prevention work and picturing the tuberculosis sanatorium maintained by the organization.

Fraternal insurance organizations have become interested in health service work. The National Fraternal Congress composed of sixty-seven fraternal associations with a membership of 11,000,000 has recently undertaken an active health educational program. It has a committee on health conservation to prepare health literature and

health articles for fraternal magazines. Certain fraternal benefit societies conduct hospitals and sanatoria. The Woman's Benefit Association maintains forty health centers in various cities where members may receive free examination, advice and medical care. Traveling physicians make health examinations; there is a free nursing service for sick members, and summer camps for recreation. The National Fraternal Congress is considering giving periodic health examinations to its members.

HEALTH WORK OF FOREIGN COMPANIES

Foreign insurance companies are evincing interest in health educational work. The Wesleyan and General Assurance Company of Birmingham, England, has established a Health Service Bureau and is issuing pamphlets on health subjects. The Mutual Property Insurance Company, Ltd., after a study of American methods has established a nursing service and has issued health pamphlets. The General Assurance Society of England and other British companies are working along similar lines. Two Australian companies have established health conservation and nursing services. The insurance department of the Japanese post office has engaged in active health propaganda. The Nippon Life Assurance Company has established a Social Welfare Foundation to commemorate the wedding of the ruling monarchs. The company has organized activities to promote public health and hygiene and in particular, to combat tuberculosis. It provides care for children and nursing mothers. It distributes health literature, organizes lectures and health exhibits and other health activities. The company has established a free Consultation Bureau which makes examinations and gives treatments. This is one of the most far-reaching

foreign health programs. It closely follows American methods.

HEALTH WORK OF THE METROPOLITAN

As an illustration of the health work of insurance companies, I shall briefly detail the activities of the Metropolitan Life Insurance Company. In 1909 in announcing the organization of a "Welfare Division," the company stated that "insurance, not merely as a business proposition, but as a social program, will be the future policy of the company." It was believed that sickness and death could be appreciably reduced by a continuous campaign of education in personal hygiene; that policyholders could be interested to participate actively in community health work and civic betterment; that insurance agents could be of value in spreading the message of health; that co-operation could be extended to health officials and welfare organizations to facilitate their work; that constructive health legislation and more adequate appropriations for health work could be secured.

A large number of policyholders were workingmen and their families. Their mortality was materially higher than that of the population. A special table of mortality known as "The Industrial Table" was used for this group. As late as 1911, the death rate was 12.5 per cent as compared with a rate of 10.1 per cent in the general population. The greater mortality contributed to the relatively higher cost of industrial insurance. The health campaign today reaches more than 23,000,000 people—one-fifth of the entire population of the United States and Canada.

The health literature issued by the company interprets scientific medicine in readily understandable terms. A series of more than 100 pamphlets deals with diseases, such as cancer, measles, whooping cough, diphtheria,

etc.,—their symptoms and treatment. The need of trained medical advice is stressed. Other booklets deal with first aid, accidents, rules of hygiene, the care of the baby and the young child, the health of the worker, mental hygiene and so on. In 1926, for example, 44,247,526 pieces of literature were distributed, bringing the total to over 420 million. A quarterly health magazine has a circulation of more than 5 million copies.

A visiting nurse service was established in 1909. Nursing service is now available in over 4000 communities in the United States and Canada. Nearly 30 million visits have been paid—of these, 3,188,417 visits were made to 633,789 patients in 1926. In 1900, visiting nursing was intended largely for the poor. The Metropolitan has extended the scope of health nursing by making it available to self-supporting and economically independent persons. Public health nursing has been popularized. The middle classes, as well as the poverty-stricken, call upon the public health nurse. Scholarships for additional professional training in public health problems have been granted to nurses. Nursing institutes under the direction of competent supervisors have been organized. The Company in co-operation with the University of Montreal, the Provincial and local health departments and the Anti-tuberculosis League, is conducting a training center for the education of French-speaking nurses.

In addition to literature and nursing other efforts have been made to educate policyholders in personal hygiene. A Health and Happiness League was organized for juvenile policyholders. Sanitary drinking cups and patterns for making drinking cups have been distributed. Co-operation has been given in campaigns for clean-up weeks, street safety, recreation, and child

welfare. A series of traveling health exhibits have been distributed. Nothing has been more significant than the continuous efforts which have been made to show policyholders insured in the Industrial Department their responsibilities as citizens. Special attention has been paid to foreign-born policyholders and those of foreign parentage. Literature has been translated into their mother tongue. Classes in English have been organized. Agents have encouraged them to apply for citizenship. Practical advice and service regarding immigration laws have been given to policyholders having relatives coming to the United States.

A field staff of almost 25,000 agents and managers has been taught to be messengers of health. A special correspondence course and periodical meetings have developed this viewpoint. Agents are instrumental in securing better health and living conditions in their communities. They have made close contacts with Health Departments and assisted Health Officers in obtaining increased appropriations. They have co-operated in special campaigns for typhoid inoculation, toxin-antitoxin immunization, etc., and have persuaded many parents thus to protect their children. With the slogan, "No More Diphtheria in 1930," a special drive to eradicate diphtheria in New York State is being conducted. Special literature has been distributed to policyholders during epidemics. Through the aid of agents, a model milk ordinance, advocated by the United States Public Health Service, has been secured in many communities.

Similar co-operation has been given the medical profession, to private health organizations, and to associations interested in health campaigns, such as safety councils, parent-teacher's associations, women's clubs, Boy Scouts and Girl Scouts. The com-

pany's literature has been given freely to these associations. The story of the Christmas Seal has been made the subject of magazine publicity. Special club papers, charts and campaign bills have been prepared for women's clubs seeking to arouse public consciousness to the importance of modern health work. A special bureau of the company has made close contacts with the public schools and has prepared special school literature. Special studies in school health have been undertaken, under the auspices of an Advisory Educational Group and in co-operation with New York University, the University of Michigan, Columbia University, and the Massachusetts Institute of Technology.

Through its policyholders, the company has encouraged legislation for the promotion of health. In 1909, Chicago policyholders were advised about the merits of a proposed municipal tuberculosis sanatorium. Successive efforts have been made to focus the attention of the policyholders on proposals for bond issues for the erection of sanatoria and hospitals; on proposed appropriations for state and municipal departments of health and for the establishment of county boards of health; on proposed legislation for playgrounds; on laws minimizing the dangers of street accidents and on proposed amendments to state constitutions affecting child labor. There has been frequent occasion to arouse interest in communities to secure pure milk ordinances and to permit the use of safe milk. The tenement house situation in various communities has been brought to the attention of policyholders. Improved systems of sewage disposal and water supply have come about in many communities through their efforts. Other activities in this direction have been attempts to secure a Federal Department of Health, an

amendment to the state constitution in New York for a Workmen's Compensation Act, laws for full-time health officers, ordinances for pure milk and water, compulsory birth registration, vital statistics, provision of free toxin-antitoxin, and better methods of disease control.

In the desire to find new avenues of disease prevention and to give practical application to discoveries in preventive medicine, the company has undertaken surveys and demonstrations. Unemployment surveys were made at the request of the United States Department of Labor. Sickness surveys have been conducted in various cities. A demonstration in tuberculosis control in Framingham, Massachusetts, was conducted in co-operation with the National Tuberculosis Association. A sanitary survey of New Orleans was made. A special committee of the American Public Health Association to study health practices in large cities was financed. A demonstration was undertaken in the Province of Quebec to reduce infant mortality. A commission appointed by the company has been studying influenza and pneumonia and the common cold. Another committee, appointed by the company, is making a study of burial costs.

LENGTHENING OF LIFE-SPAN

The result of this has been a lengthening in the life-span of Industrial policyholders in excess of the improvement which one might reasonably expect from the record of the general population. Thus, between 1911 and 1925 the expectation of life of Industrial policyholders increased 8.88 years, while the gain in life expectancy for the general population of the United States Registration Area was only 5.16 years. In 1925, the expectation of life among Metropolitan Industrial policyholders was 55.51 years, as

compared with an expectation of 46.63 years, in the two years 1911-1912 combined.

The greater extension in the life-span for the Industrial policyholders over that discovered for the general population was due, of course, to the more rapid fall of the death rate among these insured wage-workers. Between 1911 and 1925, the Industrial policyholders' death rate declined 32.5 per cent and among the general population of the Registration Area only 15 per cent. This decline in mortality among policyholders resulted in a saving (over and above that expected from the general population) for the whole period 1911 to 1925, amounting to 240,744 persons.

DECLINE IN MORTALITY RATES

Another way of looking at the remarkable improvement of the insured Industrial population is to compare the difference in 1911 and in 1925 between the death rate for this group and for the general population. In 1911, the death rate of policyholders in the Industrial Department was 24.3 per cent in excess of that for the general population. In 1925, the policyholders' death rate was 8.46 per 1000, and this was actually lower than the crude death rate which occurred in the general population of the United States Registration States, 8.57 per 1000.

For 1926, we have the information only for the Industrial policyholders. The facts show that in that year there occurred 63,330 fewer deaths than if the mortality rate of 1911 had prevailed. It is, of course, at this time impossible to compare the 1926 death rate for policyholders with that for the Registration Area, but when the figures become available later on, it will be shown, in all probability, that the 1926 death rate of these insured persons was lower than it would have been if the

experience of the general population alone had prevailed.

A few facts for important diseases may be of interest. Thus, between 1911 and 1925 there was a greater decline in tuberculosis mortality (56.3 per cent) than among the general population (45 per cent). For diphtheria, the death rate among our Industrial policyholders declined somewhat more rapidly than it did in the general population of the United States, the decline for the policyholders between 1911 and 1925 being 62.6 per cent, a more favorable figure than that recorded over the same period for the Registration Area (58.3 per cent). For measles, scarlet fever and whooping cough the death rate among the Industrial policyholders also declined more rapidly than it did in the general population of the United States Registration Area. The decline in the diseases relating to childbearing over this period was also more favorable than in the general population. Between 1911 and 1925 a reduction of 14.6 per cent in the death rate for puerperal diseases was recorded, whereas in the general population the decline was only 9.6 per cent.

WHAT IS NEEDED

Life insurance companies have contributed to the improved health of the American people. The economic value of their work has been demonstrated. And yet, while standards of personal hygiene have risen, community health work is incomplete. Existing knowledge of the causes and prevention of communicable diseases has not yet been fully applied. Communities with well-organized health departments are still too few; the trained and efficient health officer, appointed for merit and free from political pressure, is just beginning to obtain recognition. Cities or states with ample appropriations for

activities essential to a modern health department are still the exception. There is need of adequate laws to safeguard water supplies, milk supplies, and foodstuffs. Campaigns of education by the health authorities to secure co-operation of an educated and enlightened citizenry must be more fully organized and developed.

Is not such a campaign for life prolongation worth while from both the social and economic aspect? What, then, should be the relation of the great institution of life insurance to this altruistic effort? As I pointed out in a previous paper,² it is not the function of any one particular company, but should be the joint obligation of all. Acting co-operatively, life insurance associations should organize a bureau of health conservation in command of ample funds and adequate personnel. Such a bureau should undertake active propaganda in the education of policyholders so that eventually an educated public may be assured. It should endeavor to secure legislation—Federal, state and municipal—from which competent health administration would result. Its energies would be directed wherever it were feasible to secure adequate appropriations for comprehensive and constructive preventive health work. The proposed bureau should use its influence and power to combat the attempts which are daily being made to undermine scientific medicine, amend existing laws, and let down the bars which now protect the public health.

If such a bureau could be organized, representing as it would the joint efforts of the life insurance companies, with the backing and the support of all groups in the community and possess-

² Lee K. Frankel, "Life Insurance and Public Health." An address delivered at the International Convention of Life Underwriters, Atlantic City, N. J., September, 1926.

ing power to formulate and develop a comprehensive health program, we could assuredly look forward to a steady reduction, year by year, in the death rate and an indefinite prolongation of life. For, in spite of the splendid progress which has been made, we are still far from having attained the limit of the life span which our present knowledge of preventive medicine makes possible. At least ten years more could be added to the prevailing expectation of life for the average person in the United States. This is a most conservative estimate which does

not take future medical progress into account. Researches are now going on in laboratories and clinics into the cause and prevention of cancer, pneumonia, infantile paralysis, the common cold, influenza, and other diseases whose etiology is as yet not fully understood, which may revolutionize present methods of treatment. When we have these in our grasp and they follow in the wake of yellow fever, smallpox and the other diseases which we have conquered, we may confidently look forward to a life expectancy of seventy, eighty, even 100 years—who can say?

Co-operation Between Life Insurance and Trust Companies

By EDWARD A. WOODS

President and Manager, The Edward A. Woods Company

ENDURING institutions arise only when the need for them occurs concurrently with facilities for supplying them. They are not invented but are rather evolutions. When savages roamed this continent, not only were stock exchanges, universities, trust companies or large emporiums not needed, but to supply them would then have been impossible even had the need existed. Leonardo da Vinci could not have made a successful flying machine when the gas engine, electric batteries and many other essentials of the modern aeroplane were unknown.

IN RESPONSE TO MODERN NEEDS

The life insurance company and the trust company are both products of the times. There are certain requisite factors necessary to establish and maintain a modern life insurance company which did not exist in this country one or two centuries ago and do not exist to-day in most foreign countries. The mathematical and mortality data upon which such companies are founded, the intricate systems of communication which enable a company with headquarters in New York City to have millions of policyholders scattered in every village, town and hamlet in the United States and safe methods of remitting and investing vast sums of money did not exist before the days of banks, post offices, railroads and telegraph. Then, too, life insurance would have been impractical when comparatively few people had the means to provide it. In a country where daily existence is difficult, the thought of

providing for one's family after death or making provision for one's own old age is but an idle dream. It is only in the last century that any appreciable proportion of the population of this country have had sufficient means to provide for other than their daily wants and in addition something for investment in banks, life insurance, bonds or other securities. Just a little over a century ago the Duke of Wellington opposed the establishment of savings banks in England on the ground that if the laboring man was earning more money than he needed to live on, his wages should be reduced!

Less than a century ago, when the average duration of human life was about forty years, the expense of life insurance would have been prohibitive. It is estimated that for every year of life saved now in this country, the cost of insurance is reduced some forty million dollars. Were the same amount of insurance in force now possible in 1850, the cost would have been \$720,000,000 more than is paid for such protection to-day—an increase over the present cost of almost thirty-five per cent. It is unnecessary, however, to enumerate all the changing conditions necessary to make the establishment of a modern life insurance company possible.

The trust company is also a very recent response to a modern need. It, too, requires certain financial conditions and modern facilities to exist. It is the product of conditions and times when people have estates to leave, securities to lock in safe deposit boxes, when multitudinous laws of many po-

litical jurisdictions complicate the inheritance of property. The need for corporate executors such as the trust company became manifest when there were a sufficient number of estates and trusts to be administered which required experience and technique in order to settle estates economically. Our Puritan forefathers were little concerned with the problem of whether their widows or spoiled sons would dissipate large estates for the simple reasons that there were no large estates and few idle sons. Today in every American city there are parents deeply concerned with this question who are turning to the trust companies for an answer.

The English nobility, earlier faced with the problem of the dissipation of estates upon inheritance, developed the law of Entail under which the oldest son inherited the property and could not dissipate it. This rigid arrangement applied only to the oldest son and concerned the relatively few estates of the nobility. It was thus an aristocratic institution. The American trust company, on the other hand, is a democratic institution and provides for the administration of not only the large estate but the small one and permits the testator to leave property not only to the oldest son or next of kin, but to anyone whom he may choose as an heir.

LIFE INSURANCE VS. TRUST COMPANIES

It is obvious that there are essential differences between the chief functions of life insurance companies and trust companies and yet many places where the functions of one organization naturally supplement those of the other. The life insurance company is becoming ever-increasingly a national institution. Whether its office be in Los Angeles or Boston, its clientele extends throughout the entire country. Its

policyholders may comprise millions of people scattered over every state and its funds may in turn be invested nation-wide.

On the other hand, the trust company is chiefly a local institution. The banking facilities, its function as registrar of bonds, as a rentor of safe deposit boxes, as a custodian of wills, as the acceptor of trusteeships and the function to act as administrator, executor or trustee of an estate are generally confined to the community in which the trust company is located. A trust company in Dallas, Texas, secures very little business from Jacksonville, Florida, or Richmond, Virginia; a life insurance company with headquarters in Boston or Philadelphia may do a larger business in some distant city than any local company there.

There are many functions of each institution in which the other is but little interested. No life insurance company is a bank of deposit and the charters of most companies provide that every contract shall involve some life contingency. With the exception of immediate annuities, it is not the function of the life insurance company to act as trustee of funds except for the distribution of those arising from the maturity of a life insurance policy, and even then the company is subject to certain limitations. A life insurance policy is a contract to pay; a trust is an agreement to hold or distribute funds often with wide discretion. Life companies do not act as transfer agents, rentors of safe deposit boxes, receive savings or perform other banking functions that are the regular duties of trust companies.

The trust company, on the other hand, does not create estates. It takes care of funds already provided. Through life insurance estates are created and the trust company acting

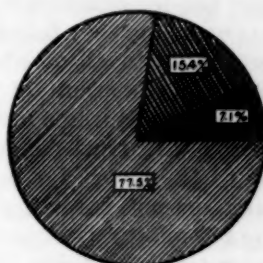
as executor conserves them. Of course, both institutions are interested in stable conditions and the prosperity of the community. The business of both is materially aided by prosperity, thrift, sound financial conditions, wise legislation and a healthy, long-lived population.

Both these institutions are peculiarly American, though they have their foreign origins. Life insurance originated in England as an outgrowth of the underwriting in Lloyd's Tavern dating back to 1688. The original business of marine insurance has now developed into nearly one hundred and fifty forms of insurance, of which life is perhaps the most important because it deals with that most fundamental and greatest of all values, human life. However, neither the life insurance company nor the trust company have developed in any foreign country to the extent that they have here and in Canada. This is due partly to our wealth, but in the case of life insurance, is due chiefly to the development of the agency system and the renewal contract under which life insurance companies employ an agency force to actively solicit business, for which they are generally paid a percentage of the first premium and a much smaller percentage of those that are renewed. Thus a part of the underwriter's compensation is contingent upon the policy being maintained. This form of agency system is practically an American development and with the exception of some Canadian and American companies doing business abroad, does not prevail in other countries unless Australasia be an exception. Neither has the trust company as known in this country been so developed abroad.

The United States carries three times as much life insurance as the rest of the world put together and six times

as much as any single nation. Ninety-two per cent of all the life insurance carried in the world is in English-speaking countries, so that it may be said in general to be an institution of English-speaking peoples.

CHART I

LIFE INSURANCE IN FORCE IN THE WORLD

United States	\$ 77,512,156,966*
British Empire	15,454,665,781**
All other Countries	7,291,035,338†
Total	\$100,257,860,085

*Dec. 31, 1924

**Canada 1924; Other Governments, 1923.

†Latest available figures

Recently the mutual interests of life insurance and trust companies have been recognized by representatives of both institutions, which has resulted in remarkable progress in the development of co-operation between them. This has, in turn, greatly benefited the representatives of both institutions and the public they serve. Some of their chief mutual interests, aside from that of banking, are that people should be thrifty; that as many as possible should leave solvent estates to their heirs; that they should provide funds for their own old age; and that all funds left to heirs should be safeguarded and wisely invested to bring as high an increase as possible commensurate with safety. As more people leave estates of profitable size, the opportunity for trust companies to secure more business from handling them increases, and life

insurance is the chief instrumentality for accomplishing this end.

ACTIVITIES OF INSURANCE COMPANIES

An agency force in excess of 200,000 underwriters of legal reserve companies secured 3,704,933 ordinary and 14,259,778 industrial policies in 1925, aggregating almost \$15,000,000,000 of insurance, besides soliciting millions of prospects on whom they failed to place insurance but with all of whom they discussed the creation of estates. Their work along this line makes their co-operation with trust companies invaluable to the latter, for most trust companies do not employ an active soliciting force but rely instead chiefly upon advertising to bring them new business.

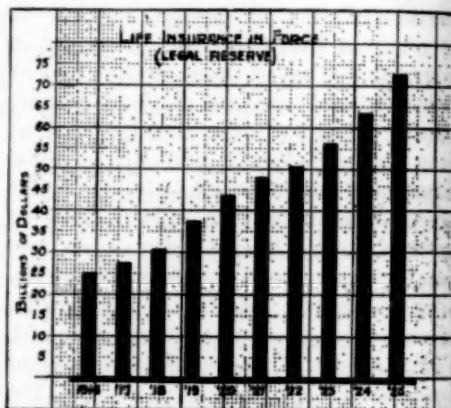
The insurance company provides ready money to create estates, or to keep those solvent that would otherwise be hard-pressed for cash to offset the debts, taxes and administration expenses which ensue upon the death of testators. It provides for the shrinkage of estates from these causes and often prevents the forced sale of securities. Life insurance proceeds also constitute the sole estate of the great majority of people who would otherwise leave no estate at all.

Most adults have income but comparatively few have large capital. Where there is one person who has a large principal invested in mortgages, bonds, stock or cash, there are many who have considerable incomes but who live closely up to them, depending chiefly upon life insurance for the creation of any estate they may leave. One of the interesting things recognized by trust officers recently is the part that life insurance plays not only in making estates more profitable to handle, but in creating estates that would otherwise not exist. Careful examination has shown that about two-thirds of those

who die and leave estates create them through life insurance.

The rapidly increasing amount of life insurance in force not only represents the coverage of an increasing number of persons, but also reflects the growing wealth of the country and the increasing size of life insurance estates. It likewise reflects a greater public appreciation of life insurance as a creator of estates. While \$500,000,000 in death claims is annually paid out today besides \$153,000,000 in maturing endowments and annuities, there will be far more paid in the future as some of the \$72,000,000,000 now in force matures. The estates thereby created should be adequately safeguarded and in most cases be handled by trust companies rather than by private executors.

CHART II



Life insurance companies have devised policies that partly meet this need, chief among which is the life income policy, which is unquestionably the safest kind of insurance for the family. It has the advantage of having the entire assets of a company back of every contract instead of securities, however carefully selected, that belong to the single trust. On the other hand, there are many instances where a trust company should be a trustee of

funds for purposes not covered by a life income policy and certainly not so under policies payable in a single sum.

Life insurance is first necessary to provide cash as a clean-up fund from which to liquidate estates whose debts, funeral expenses, those of last sickness, taxes and administration expenses must be paid largely in cash. In the case of large estates, taxes are a very important item and are always a first charge upon the estate. These liabilities must be provided for before a life income, for even if the latter be provided for a wife or children, where the estate becomes insolvent, such debts are usually paid by the family as debts of honor. It is to the credit of most people and also to their surviving families that they want such debts paid. Even though the latter are exempted from liability for these debts by law, they often pay them before accepting the provision of life incomes.

Life income insurance is applicable chiefly to persons at least of some small means and is out of reach of most policyholders. The average insurance policy in the United States is for less than \$2500, excluding industrial insurance policies. The vast number of the latter average but \$174 and are really burial policies inadequate to pay the expense of the last illness and burial. There are millions of people who buy or should buy life insurance whose incomes permit them only to provide a fund from which to pay the expenses of death and to carry the family for a year or so thereafter. These small estates need the most careful management and in many cases should be administered by trust companies. Take, for example, the small merchant in the country town whose total estate, after debts are paid, is \$4000 or \$5000. Every penny of this money should be conserved. Every unnecessary ex-

pense should be avoided, every asset liquidated at its highest possible value and the residue so wisely spent that it will be spread over as many years as possible. In such a case the trust company can best serve the purpose in distributing the fund supplied by life insurance.

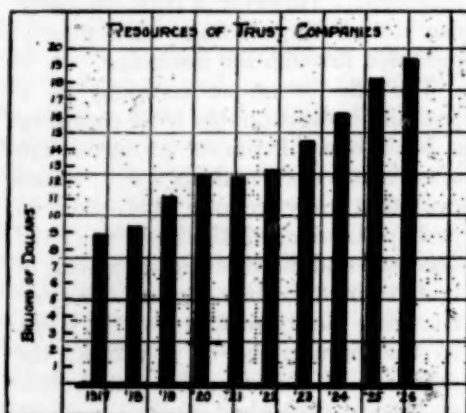
There is another class of estates where flexibility in disbursing funds is necessary which is impossible for the life insurance company to give. For instance, it cannot pay a part of the proceeds of a policy for certain emergencies, as for illness, nor spend money for the education of children upon the condition that they avail themselves of this advantage. It cannot protect the widow or daughter against unforeseen events which require the exercise of judgment. However, a trust company can do all these things with money provided through life insurance.

The life insurance company is a national institution, the trust company a local one. Intimate problems are often involved in making a will, whose execution may require discretion in perhaps liquidating the business of the deceased and distributing its assets, or more intimately may concern the ever-changing family relations of the heirs, as the re-marriage of a widow, the marriage of children, the distribution of money dependent upon the thrift shown by heirs, and a host of other considerations, all questions that one wishes to discuss personally with local officers of a local trust company. They are factors which require changing provision from time to time. The conscientious, intelligent life underwriter will meet with a large number of cases where the life insurance on the insured will not solve the problem of family maintenance without the services of a trust company to carry out the purposes for which the insurance was intended.

FUNCTION OF TRUST COMPANY

Trust companies have grown remarkably both in size and in number the last decade until now there are 2684 companies with resources over \$19,000,000,000, excluding national and state banks with trust powers. With the trust departments of state and national banks they exercise a powerful influence upon the financial actions of a great many people. They can materially aid the cause of life insurance by explaining what it is, what it will do, and how it will do it and by intelligently studying the functions and services of life insurance companies, trust officers can do much to see that their clients enlarge their insurance programs.

CHART III



The officers of trust companies can serve their own companies, their clients and the general public best by becoming thoroughly familiar with the functions of a life insurance company. They should recognize the necessity of adequate life insurance to protect the shrinkage of estates, especially those where trust companies act as executors or trustees. When trust officers discuss inheritance tax problems with clients, they might well suggest that adequate life insurance be made avail-

able to the executor for the purpose of paying such taxes. When a client expresses a desire to mortgage a home life insurance can be recommended to amortize the mortgage. In many instances life insurance can be used to create estates for those who would otherwise leave none at death; in other charitable bequests can be provided through life insurance and this method particularly recommends itself because it obviates administration costs and taxes up to a liberal amount.

It is estimated that only about five per cent of the life value of the population is covered by life insurance, while over fifty per cent of the combustible value of the property in the United States is insured against loss by fire. It is obvious, therefore, that most people, whether of small or large means, have neither covered their life value nor protected their estates by sufficient life insurance. The trust officer by his advice can help decedents leave estates in better condition in many instances by suggesting that the various liabilities incident to estate settlement be provided for by money purchased in advance, in other words, through life insurance.

Trust companies are often called upon to advise clients about their business problems. In a large business where the key man is exceedingly valuable to the organization, the use of business or credit life insurance to cover his life value can often be profitably suggested by the trust official. It is desirable that cash be brought into the estate by means of life insurance at the death of its creator when the heaviest loss falls upon the estate. The amount of insurance so paid, whether considered locally or nationally, is pitifully inadequate. It is to the interest of the trust company and its clients to suggest that this provision be made in order that the estate debts

can be liquidated and the estate kept at par. The difficulties of administration are thus lessened by liquidation and estates are settled on a more satisfactory basis than would otherwise be possible.

Investigations have shown that little cash is available at death even among the estates of the wealthy. A man of great wealth does not keep a bank account large in proportion to his means. Of the three items of shrinkage, *i.e.* debts, administration expenses (including those of the last sickness and death) and taxes, the amount of cash on hand in large estates does not equal any one of the three items of shrinkage and is seldom ten per cent of the total amount necessary to meet these liabilities. In effect, a man's death is like putting his business in a permanent receivership with additional tax expenses to follow, many of which must be liquidated at once. The ideal should be for every American to die with enough life insurance to cover his estate liabilities and leave his estate at death equal to what it was during his lifetime. This is best achieved through adequate life insurance protection.

WITH CO-OPERATION

There are, of course, difficulties involved in the co-operation of life insurance and trust companies. It is easy for one institution to trespass upon the functions of the other, for an uninformed underwriter to advise on affairs that come within the range of the experienced trust officer; and it is just as easy for the latter to make the mistake of giving advice that is more properly the province of a conscientious and experienced life underwriter.

There are, of course, border-line cases where there may be a question

as to whether money could best be provided to heirs through life income insurance policies or through funds left in the hands of a trust company. There may be other cases where the executor or trustee of an estate should be some one other than a trust company. Friction is easy along these border-line cases and other mistakes are quite possible, but these should not be allowed to retard the valuable work of co-operation of these two institutions in creating and conserving American estates.

No life insurance company should give undue preference to any trust company nor should any of the latter give preference to any single life insurance company. If, however, a particular trust company or life underwriter is found to be experienced and very attentive to the needs of his clients, they should be recommended on their merits aside from their company affiliations. These problems, like all others, are within the range of men of wide discretion to solve themselves.

The 200,000 trained life underwriters in this country who work in harmony with the officers of 5000 trust companies and banks with trust powers are making a tremendous contribution to thrift, the creation and conservation of estates, to the preservation of American homes and to the general safe, stable and conservative investment of funds as opposed to speculation, extravagance and waste. If the representatives of both institutions carefully study the social problems that beset their clients and then heartily co-operate to solve these problems, it cannot but result in the further growth and extension of both life insurance and trust companies, and, most important of all, benefit the ever-growing public they both serve.

Insurance of Substandard Lives

By ROBERT HENDERSON, F.I.A., F.A.S.

Second Vice-President and Actuary, The Equitable Life Assurance Society of the United States

THE conditions which render a given life ineligible for insurance at standard rates may be of various kinds, arising either from some special set of external circumstances surrounding the applicant or from some defect in his physical or mental condition. The two outstanding examples of the former are occupation and residence. It has always been recognized that certain occupations expose those engaged in them to an increased hazard of death from accident and that other occupations involve conditions such as dust and excessive heat which cause physical deterioration and increased liability to certain diseases. Similarly, the increased risk due to residence in tropical climates has always been recognized in view of the known prevalence, formerly more marked than at present, in those climates of certain fatal diseases from which residents of more temperate regions were practically exempt. The early tendency in life insurance was in fact to regard residence in any foreign country as extra hazardous. Risks involving these hazards of travel, residence and occupation presented themselves so frequently that their insurance at an extra premium judged to be adequate became a common feature of the business, and the term "substandard lives" is not ordinarily understood as applying to lives involving only those features of extra hazard. Companies insuring residents of tropical countries or persons engaged in hazardous occupations do not consider that in so doing they are engaging in the business of insuring substandard lives. This term therefore refers specifically to those

lives subject to an extra hazard on account of some physical or mental defect, either disclosed by the medical examination or presumed to exist on account of some event in the personal or family history of the applicant.

PROTECTION FOR SUBSTANDARD LIVES

The insurance of certain of such lives at an extra premium dates back to the very inception of scientific life insurance. We are told that the Equitable Society of London, when it inaugurated in 1762 the writing of life insurance on a scale of premiums graded according to age, insured also those who had suffered from gout at a premium twelve per cent higher than the standard rate, those who had hernia at an eleven per cent increase and those who had not had smallpox at a twelve and a half per cent increase. The first serious attempt to develop this type of insurance, however, was made early in 1824 when the Clerical, Medical and General Life Assurance office was established, which undertook, as its leading feature, to grant policies on lives deviating so much from the common standard of health as to render them wholly inadmissible at any office then existing. In the absence of trustworthy data safety was sought in the provision that of the seventeen members of the board of directors at least eight should be members of the medical profession. In the selection of these directors an endeavor was made to secure men specially qualified to advise regarding some particular class of diseases. By this arrangement it was hoped that, whatever might be the complaint with which any appli-

cant had been afflicted, there would always be on the board a medical director who was specially qualified by previous study and practice to estimate the increased risk. Another society, the Asylum, was started in the same year which also proposed to insure persons who "though far from being in a dangerous state, are not considered as select lives, and are therefore rejected as altogether uninsurable." Its promoters announced that they had "ascertained, by great care and research, the true law of mortality for various climates and diseases." No record has, however, been found of the basis of this claim.

Neither of these companies confined its business to this class of risk and on the other hand some other companies, either already in existence or later formed, took part in this business with the result that it was thereafter a more general feature of the life insurance business in Great Britain.

In the early days the practice was for the medical examiner to state his opinion of the degree of hazard in the form of a number of years to be added to the age, and while this was probably in its origin only a convenient way of stating the amount of extra premium to be charged, there was a resulting tendency to treat the case in other respects as if the risk were exactly the same as in the case of a healthy life at the advanced age. Some companies, however, had a single scale of increased premiums which applied to all substandard lives accepted by them.

METHODS EMPLOYED

Early in the history of this type of business the companies engaged in it discovered the disinclination of many applicants, considered uninsurable at standard rates, to admit even to themselves that they were in fact subject to an extra hazard. This frequently re-

sulted in a refusal to accept the policy offered. The companies accordingly attempted to devise a method of providing for the extra hazard which would enable their agents to meet this objection. The plan adopted for this purpose was to reduce the amount insured during the early years so that only the standard premium need be charged but that, nevertheless, if the insured survived a specified period the full amount would be paid. One form which this arrangement took was a uniform reduced amount during the period of the normal expectation of life for the age of the applicant. Another provided for a smaller initial amount of insurance with uniform annual increases during the expectation period. A third form substituted for the expectation a period, usually less than the expectation, which was a multiple of five years. This method was proposed by Mr. W. M. Makeham in 1872, who suggested probationary terms of twenty-five years for ages under forty, twenty years for ages between thirty and fifty, and fifteen years for ages between forty and sixty with the qualification that the period should be so fixed that the initial amount would not be more than half of the maximum. This latter limitation was, however, only imposed in order that an approximate rule which he gave for determining the initial amount in the case of ordinary life policies from the number of years rating up, might be safely used. A fourth variation, under which the annual increase was equal to the gross annual premium paid and the initial amount was varied according to the degree of extra hazard provided for, was the one adopted by the first American life insurance company to engage in this business in an extensive way.

The psychological basis of these plans is quite evident as they enabled the agent to take the position, where

the applicant disputed the fact of impairment, that the company was willing to back its opinion of the risk by making its extra compensation depend on the early death of the insured and agreeing that if the insured sustained his contention by, in fact, surviving to the end of the probationary period the sum insured would be exactly the same, for the same premium, as in the case of a healthy life. While, however, this argument was undoubtedly effective in many cases, it must be admitted that it is not so strong under close scrutiny as appears at first glance. The insured is in fact paying an extra premium for the benefit provided in the policy because the annual premium required from a standard life for that same benefit would have been less than he actually pays. The point involved may perhaps be better illustrated by supposing a parallel case in the field of gambling. Two men, A and B, may be discussing a proposed bet on the outcome of a football match between two teams in which they are respectively interested. They are each ready to bet on their teams but A thinks that the conditions entitle him to receive odds of say 5 to 4, whereas B holds out for even terms. The parallel solution of the difficulty would be for A to propose that they each put up five dollars as B desires, but with the understanding that if A should win the bet would be settled on that basis by handing over to him the entire stakes, whereas if B should win, thus confirming A's contention, only nine dollars should be handed over to B and the other dollar returned to A. This might sound plausible, but on consideration we see that A would not be really staking any more than four dollars as the other dollar returns to him in any event. Similarly, under a lien policy the company is not really insuring for the face amount as that amount is not paid unless a considerable sum

has already been paid to it in premiums.

That the psychological appeal to the applicant was not as great as had been supposed was shown when one of the large American life companies, after having commenced the insurance of substandard lives on the lien plan, instituted the practice of offering to most of the applicants the option of taking a rated up policy giving full benefit from the start. The result was that practically every applicant to whom the option was given selected the rated up policy. The additional annual premium called for was very small compared with the additional insurance immediately obtainable. For example, according to Mr. Makeham's approximate rule a fifty per cent initial reduction running off over a twenty-year period is the equivalent of five years added to the age. At age thirty-five a rating up of five years means an addition of about seventeen and a half per cent to the premium for which the initial amount of insurance is doubled as compared with the lien policy. Accordingly, if, as is frequently the case, the purpose which is uppermost in the mind of the applicant is to secure immediate insurance protection, the lien policy is not likely to appeal to him.

The standard policy laws which were passed in 1906 in New York and a number of other states made it difficult and even temporarily impossible to issue policies on the lien plan with the result that since that time policies have, as a rule, carried full benefit from the start. The extra hazard is provided for by charging an extra premium.

This extra premium may be expressed in various ways. In some companies a number of scales of extra premiums for the various ages and policy plans are calculated so as to cover different percentage additions to the rates of mortality and each case

when accepted is assigned to the scale considered most appropriate. In other companies the extra is expressed as a number of years added to the age. While, however, this method is in form the same as the method first used a hundred years ago, its actual working is quite different. Whereas then the medical examiner assigned the number of years added without any definite idea of the rates of mortality he was thereby providing for, it is now customary to determine first the degree of extra hazard to be provided for and to pass from that to the number of years addition required on the particular form and at the particular age in question. A third method used by some companies is to combine a flat extra premium with the rating up in age, adding, say, fifty cents for each year of rating up to the premium at the rated up age. Certain types of impairment are also covered by charging a relatively high extra premium which is, however, only to be collected for a limited period after which the regular premium will apply. This method is used where the hazard is of such a nature that it is considered that if the applicant survives a few years the risk will have become normal. These cases usually involve a history of a comparatively recent severe illness or operation.

BASIS OF INSURABILITY

The important problem, however, in connection with the insurance of substandard lives is one which relates to its position in the intermediate zone between standard insurance and rejection. This is the problem of determining the influence on mortality of the various facts ascertainable regarding an applicant for insurance. This is necessary in order to decide, in the first place, whether or not the applicant comes within the limits prescribed by the company for insurance at standard lives.

It must not be supposed that the class of lives insured at standard rates, even if confined to those insured by a single company, is an absolutely homogeneous class. There are differences of occupation, residence, habits of life, family history, build and present or past physical condition included in that class which undoubtedly each have some effect on the prospects of longevity, but no distinction is made in premium rates if the net unfavorable effect is so small that the company believes it may be ignored without increasing the average mortality of its standard class above the point which it is desired to maintain. Any company could, undoubtedly, improve the mortality of its standard class by excluding a larger number of border-line cases. They are restrained, however, by two motives. The first is that of extending the benefits of insurance to as large a number of people as can safely be included. This applies to all companies but especially to those who do not insure substandard lives. The second is that it is very discouraging to the agency forces to have a large percentage of the applicants, secured by them in good faith and in the belief that they were good risks, refused standard insurance. This is particularly the case where those applicants are able to secure standard insurance in some other company.

Having decided that an applicant is not eligible for standard insurance, the company, if engaged in the insurance of substandard lives, must then decide on what terms, if any, it is willing to offer insurance. In order to make this decision it is desirable to have as much data as possible bearing on the mortality to be expected in a large class of lives similar to the applicant. In the early days the only basis for such decisions was the judgment of the medical director, founded on his knowledge of the nature of the impairments and his ex-

perience in the treatment of similar cases met with in his private practice. It was for this reason that the Clerical, Medical and General at the start tried to have a number of medical specialists on its board. A body of actual experience as to the mortality among insured lives, which when examined showed certain impairments, has been gradually accumulating to supplement and guide the medical director's judgment, but it seems probable that life insurance and particularly insurance of substandard lives will always make use of and rely upon that judgment. Mortality experiences cannot yield results of value in connection with the insurance of substandard lives unless based upon a classification of the risks according to the facts disclosed by the information secured when the risk was assumed. Each class must also be of considerable extent in order that the result may not be affected by considerable accidental fluctuation. In the formation of classes the desirable elements of homogeneity and size will always be in conflict and the advice of the medical director will always be of value in this connection. Then again, when the time comes to apply the results of experience to the selection of new risks, the skill of the medical examiner and director is necessary to determine to which class the given applicant should be considered to belong and in what direction and degree it varies from a typical example of that class.

IN CONCLUSION

From the foregoing it will be seen that, in addition to variations of general actuarial methods and policy forms, the rating of particular types of risk has changed during the history of

the business for two reasons: first, the growth of medical knowledge and skill, and second, ascertained results of insurance experience. There is no doubt that the growth of medical knowledge has rendered possible the ascertainment of facts regarding applicants for insurance which were necessarily unknown to the insurance companies and even to the applicants themselves in the early days of life insurance. The gradual improvement in the means of determining the condition of the heart, arteries and kidneys and even the chemical composition of the blood stream itself has had an important bearing on rating of substandard lives. Actual experience is following along and checking up the meaning in terms of mortality of those conditions where they are sufficiently frequent to furnish the necessary data. It is checking up also on the effect of such conditions as overweight and underweight, family history, personal history, occupation and habits.

The collection of a useful volume of such data will be greatly facilitated by the use of the codes recently prepared by a joint committee of the Association of Life Insurance Medical Directors and the Actuarial Society of America, one of which covers medical impairments and the other occupations. The use of a common code will enable the experiences of all companies to be more readily combined together and thus give a satisfactory volume of data more quickly than would the separate experience of a single company, however large. The spirit of hearty co-operation displayed by the companies engaged in this business augurs well for its future increase in usefulness to the community through an orderly safe expansion.

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Investment Tendencies of Life Insurance Companies

By FREDERICK H. ECKER, LL.D.

Vice-President, Metropolitan Life Insurance Company

THE investment holdings of life insurance companies indicate the vast proportions to which the business has grown and, in character, reflect the value of the economic service which their disposition has rendered in contributing to the growth and development of the nation. In recent years there has been a marked increase in the variety and liberality of life insurance service made available to the public. The development of the business has been in the direction of increasing concessions and of liberalizing the provisions favorable to policyholders and, in the matter of investment of funds, company executives have, without jeopardizing policyholders' interests, been ever mindful of public needs. Service has come to be an outstanding characteristic of the life insurance business, very definite in its application to individual and group policyholders and, in a multitude of ways, beneficial to the communities in which the business is transacted. The phenomenal growth of the business has been possible only because of the confidence which the American public has come to feel in the financial strength and soundness of the companies and in the wisdom and prudence exercised in their management.

Before undertaking to review investment facts as the best indication of the investment tendencies of life insurance companies, it is interesting to look for a moment at the size of our subject measured in dollar values. The assets of the United States life insurance companies, at the end of the year 1926, approximated \$12,850,000,000. While

these assets average only \$115 for each outstanding policy and \$215 for each policyholder, they exceed, in the aggregate, the assets of all savings banks and approximate half of the resources of all our national banks. These insurance assets are greater than one-half of the total value of all the railroad trackage and equipment of the nation. They are one-third greater than the value of the world's supply of monetary gold, and are now equivalent to more than one-thirtieth of the national wealth, which is calculated to be, as of the same date, \$360,000,000,000. At the end of 1880 the national material wealth, according to the estimates of the United States Bureau of the Census, was \$43,642,000,000. At that time the admitted assets of all of the United States legal reserve life insurance companies were estimated to have been \$460,000,000. In the period intervening, while national wealth has multiplied slightly over eight times, the life insurance accumulations have increased more than twenty-seven times. Then the life insurance assets were 1.1 per cent of the national wealth—now 3.6 per cent thereof.

Perhaps it should be noted that it is in the nature of the life insurance business to receive, to hold and to invest funds and the interest accretions thereon over long periods of years, and the older the business the larger the accumulations. But, nevertheless, it is a startling growth. A great reservoir of capital has been erected. In the sense that the word reservoir suggests liquid capital, it is an inept term to use, and it would be more accurate to speak

of a reservoir of investments in safe income producing securities. Capital transformed from a liquid state into fixed assets thus creates in policyholders a vested interest in the underlying securities of the railroads and other industries, in farms and in housing for residence and business purposes and in obligations issued for the financing of governmental activities. Augmentation of this fund from interest returns and from additions to reserve becomes annually a tremendous sum for fresh investment. These assets have increased four and one-third times in the twenty-year period last past, and the yearly increase for the last two years, 1925 and 1926, has been in excess of \$1,000,000,000.

INSURANCE HOLDINGS

An analysis of the holdings and the policy pursued in recent years by the companies in investing this ever-increasing volume of capital with some reference to the conditions which, from time to time, have had their influence, will best show the investment tendencies of the life insurance companies. The figures used for this purpose are those contained in tables compiled by the Association of Life Insurance Presidents from data supplied by fifty-two legal reserve life insurance companies holding, in different years, from 92.4 per cent to 98.3 per cent of the admitted assets of all United States legal reserve companies.

Mortgage Loans

Taking up the classifications in the order of their importance, it is found that mortgage loans have now come into the first place and should be given first attention. Mortgage securities are of two classes, loans on farms and on city properties. Farm mortgages during the past twenty years increased from \$268,000,000 to \$1,960,000,000,

or from 9.3 per cent in 1906 to 16.5 per cent in 1926 of the entire admitted assets of these companies. From the year 1906 to the year 1926 agricultural wealth was on a generally ascending scale, being rapidly accelerated by the influences of the World War. With the depression which began in 1929 there was a marked decline in agricultural values. In 1921 the total farm indebtedness of the country was approximately \$13,000,000,000, and this had declined in 1926 to \$12,250,000,000. Nevertheless, while the farm indebtedness was thus reduced \$750,000,000, farm mortgage loans from life insurance companies increased \$638,000,000, and the amount so invested, \$1,960,000,000, thus furnished nearly one-sixth of the sum necessary to carry the farm indebtedness of the United States.

Mortgage loans on city properties furnish a striking illustration of the way in which life insurance funds keep pace with the necessities of the investing public so as to respond, so far as possible, to the greatest need. In 1900 mortgage loans on city properties amounted to \$552,000,000, or 10.2 per cent of the admitted assets, whereas in 1926 such loans amounted to \$3,123,000,000, or 26.3 per cent of the admitted assets. The tremendous increase in building from 1921 to 1926 is reflected in the increase in city loans from \$1,252,000,000 to \$3,123,000,000. The total mortgage investments of the companies at the end of 1926 were approximately \$5,083,000,000, or 42.3 per cent of the total admitted assets.

Bonds

In the field of bond investments, one naturally thinks first of the loans for governmental purposes. Prior to the issue of United States Government securities in connection with the World War, the life insurance companies held

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bonds of the government to the extent of less than one-tenth of one per cent of their total assets. In 1919 the ratio was 11.5 per cent, illustrating again the response of the life insurance business to the most important demands from time to time. As new financing on the part of the government diminished, life insurance funds flowed into other channels, and in 1926 the companies held such securities to the extent of about 4 per cent of their total assets.

Investment in state, county and municipal bonds increased during the twenty-year period from \$104,000,000 to \$344,000,000. This form of security, however, is more readily absorbed by other classes of the investing public by reason of tax exemptions and so, as is to be expected, the proportion of total admitted assets of life insurance companies investing in such securities has decreased from 3.6 per cent to 2.9 per cent.

Our growing commercial relations with Canada and the development of the business of United States life insurance companies in Canada, are illustrated by their increasing investments in Canadian Government securities. Twenty years ago the amount so invested was \$22,000,000, being eight-tenths of one per cent of the total admitted assets of such companies, whereas today these companies hold \$261,000,000 of Canadian Government securities, which is 2.2 per cent of their admitted assets. With respect to investment in other foreign government securities, quite a different picture is shown. At the close of 1906, United States companies had \$65,000,000, or 2.3 per cent of their assets in such securities. These holdings increased by the close of 1916 to \$139,000,000, which was 2.6 per cent of the assets. Since then, there has been a drop to \$24,000,000, or one-fifth of one per cent of the assets. This change has

been brought about by the recent withdrawal of the United States companies from foreign fields.

The total investments in government securities of all classes, United States, state, county, municipal, Canadian and other foreign governments, amounted to \$193,896,000, or 6.8 per cent of the assets in 1906, grew to \$1,416,861,000, or 18.9 per cent in the year 1921, and had dropped, principally by reason of the reduction in the holdings in United States Government bonds, to \$1,116,000,000, or 9.4 per cent, in the year 1926.

RAILROAD SECURITIES

The aggregate of railroad securities now held by these companies is \$2,435,000,000. At the close of 1906, the amount of such securities was \$1,002,000,000. Notwithstanding this substantial increase of \$1,433,000,000 in amount, or 143 per cent, the percentage of total assets invested in this class of securities has dropped from 34.8 per cent in 1906 to 20.5 per cent, the ratio in 1926.

EXPANSION IN PUBLIC UTILITIES

An outstanding feature of life insurance investment during recent years has been the rapid expansion of investment in public utilities. In 1906, the companies had so invested \$134,000,000 and now have \$819,000,000. This is an increase from 4.7 per cent to 6.9 per cent of total admitted assets. In 1906, the major portion of public utility investments was in street railways, whereas today by far the larger portion is invested in connection with companies supplying light, power, heat, telephone and other similar service for home and business uses. The insurance companies' investments in this class of securities are almost entirely confined to obligations secured by mortgage on the properties of the

operating companies. As an illustration of this investment tendency for the benefit of individual citizens, it is reported that 17,000 new customers were added to rural electric lines in Pennsylvania during 1925, and that, throughout the United States, more than 1000 farms per month are being added to the service lines of different electric light and power companies. It is also stated that the number of homes in the United States now served by electricity is about 15,000,000, having increased in the last six years from 6,000,000.

The investments in other bonds of miscellaneous character and in stocks amounted, in 1906, to \$107,777,000, or 3.7 per cent of admitted assets, and had increased, by 1926, to \$166,000,000 which represented only 1.4 per cent of the admitted assets. It should be noted that, since 1906, there has been a prohibition, by law, against the investment by life insurance companies in stocks, which prohibition has applied to a very large proportion of the company assets under consideration. The total investments in bonds and stocks increased from \$1,437,457,000 in 1906 to \$4,536,000,000 in 1926, but the percentage of such investments to the total assets had dropped from 50 per cent in 1906 to 38.2 per cent in 1926.

REAL ESTATE

Real estate holdings of the companies are practically confined to their home office buildings. The laws of most of the states limit such holdings to properties acquired through foreclosure and to such as shall be requisite for the convenient accommodation of the respective companies in the transaction of their business. The amount of assets invested in real estate increased from \$156,000,000 in 1906 to \$214,000,000 in 1926. It is significant, however, that the ratio of real estate assets

to total assets decreased during that period from 5.4 per cent to 1.8 per cent.

The geographical distribution of the investments and their relation to the reserve on policies in the various states is an interesting phase of the investment tendencies of the companies. At the close of 1925 the companies had invested in the various sections of the country, with the exception of the Middle Atlantic and New England states, from 102 per cent to 244 per cent of their reserves in their respective localities. The ratio for the Middle Atlantic states—New York, New Jersey and Pennsylvania—was eighty per cent, and, for the New England states, forty-six per cent. There is advantage to the policyholders of the Middle Atlantic and the New England states in this situation, in that there is thus furnished in other localities a more fruitful field for the investment of their contributions to the asset fund of the life insurance companies, while advantage accrues to the other divisions of the country through the aid furnished by these funds to the more rapid development of their communities.

Reference has been made to the inherent nature of this business whereby money is paid in to be held, with interest additions, over long periods of years, but in considering the investment of such funds, it must likewise be observed that the nature of the business is such that these monies when paid in must be promptly invested. This action is essential to provide immediately the interest earnings which play an important part in the calculations which must be taken into account in computing the charge to be made for carrying the insurance risk. In consequence, management is not altogether or at all times a free agent in controlling investment practice, but must often yield to the necessities of the hour. Monies cannot be held in hand indefi-

nately, awaiting an ultimately desirable investment, but must be put to work promptly, and selection in the matter of investment oftentimes becomes a question of choosing investments which are immediately available. However, in studying the course of life insurance investments, made over a period of years, one cannot fail to note the evidence of recognition on the part of the companies of their responsibility for public service. There is plainly some guiding purpose which transcends the law of supply and demand and unquestionably directs investment policy to a very considerable degree and which would appear to be a concrete recognition of what has been termed the greatest economic need.

TREND IN INVESTMENTS

This review of the investment facts shows quite clearly that life insurance investments flow in channels which supply the economic needs of the nation. Going back to 1906 and earlier, during the period of railroad expansion, rails were largely in favor. Adverting again to that year, it appears that more than one-third of the admitted assets of the companies was invested in railroad securities. Reviewing the situation since that year, it is noted that as railroad building declined, the proportion of company investment therein has steadily decreased. Railroads have constructed practically no new mileage since 1914 but have been intensively developing existing facilities. Vast improvements have been made in efficiency and economies of operation. The life insurance companies have supported the railroads in carrying out their program of meeting the country's need for greater transportation facilities, through their purchase of obligations of the railroads issued to acquire new equipment. If it were not for such issues, the propor-

tion of railroad investments by the insurance companies, which at the end of 1926 was about one-fifth of their entire admitted assets, would be considerably less. While the ratio of investments in railroad securities has been decreasing year by year, the investments in the securities of public utilities have been increasing, in keeping with the growth in importance of these enterprises. To an increasing degree, the obligations of that class of companies have come to be considered as seasoned securities acceptable for life insurance investment.

Mortgages on land and improvements thereon have always been a favorite form of long-range investment for trust funds and there is no other class of investment that has provided so satisfactory an experience for this purpose. This form of investment will continue to be the backbone of trustee holdings so long as property rights continue to be respected and continue to be the foundation upon which our social and economic life rests. The experience of the life insurance companies with this class of investment has been, in safety and in interest yield, more favorable than in any other class. In the mortgage transactions of the companies since 1906, one may readily detect the periods of depression and of activity in the realty markets from normal and sub-normal conditions to the great impetus which grew out of postwar conditions. Mortgage investments are a fair illustration of the extent to which life insurance funds are sought to be invested so as to be of the greatest benefit to the whole public. Loans for agriculture are not only of great benefit to the individual borrower, but are of immeasurable benefit to the country as a whole. Loans for housing, both for residence and business purposes, are not only a necessity but also furnish the means by which

labor may be employed and, indirectly, the means by which a market may be furnished for the products of the agricultural communities.

In the matter of security for loans and in fixing acceptable standards for investment securities, there is a growing uniformity of practice among the companies. Just as the life insurance business, based upon actuarial science, has been developed in practice through underwriting experience, it may be said that in the matter of investment of funds, which, while not a science, is a highly specialized business, the practice of the companies is seeking higher standards as their experience broadens. The laws of the several states regulate the securities in which companies of those states may invest, but it is quite significant that the actual investment policy of individual companies is more rigid than the requirements of the laws which govern them.

Concretely, investment tendencies are now in the direction of mortgages on real estate. Farm loans, in the last year or two, have decreased on account of agricultural conditions, but they may be expected to become more desirable as conditions improve. The increase in mortgages on other real estate more than makes up for the tendency for the last year or two to decrease investments in farm loans. Tendencies are altogether away from investment in government bonds because such securities are more readily absorbed by other classes of the investing public to whom the tax exemption feature is more advantageous, while the life insurance companies can better invest in other securities affording more

favorable interest returns than are to be had in the class of security which is tax exempt. The tendency is away from railroads, although, again from the standpoint of service, it should be noted that while a superficial consideration leads many to believe that life insurance investments in railroad securities do not afford such benefit for the public as do investments in farm and city mortgages, this view altogether overlooks the general economic and social welfare of the people as a whole. Ample and efficient transportation facilities are, as has many times been demonstrated, a vital necessity in the interrelations of people under our modern civilization. Great cities depend upon transportation for their daily food supplies. If the transportation machine is thrown out of gear, tragic results may well be anticipated. The tendency to invest in public utilities is in keeping with the development of that business both in volume and in its relation to public welfare.

The importance of allowing the funds of life insurance companies to follow the natural laws of supply and demand consistently with absolute safety and the serious results which flow from attempts to control these natural laws by artificial means cannot be over emphasized. Company management, as shown by the detailed reports covering a period of years, may be relied upon to recognize and support economic needs, and there is evident a clear appreciation on the part of company executives of the responsibility to render public service through the appropriate investment of life insurance funds.

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Group Life Insurance

By WILLIAM J. GRAHAM, F. A. S.

Second Vice-President, The Equitable Life Assurance Society of the United States

LIFE insurance in essence is the business of paying claims. A chapter on Group Insurance as developed to the year 1927 opens logically with a reference to the actual and potential volume and quality of service in the payment of claims. Claims arise in group insurance under a blanket form of contract issued to the employer. Under this contract all the employees of a certain class or classes are insured without medical examination. The amounts of insurance are fixed by class rules.

Group Life Insurance during the year 1927 will be the medium for distributing possibly about one million dollars a week to beneficiaries of employees deceasing during that year. The amount of insurance to the individual varies in accordance with the group insurance plan adopted by the employer, but the average claim will approximate twelve hundred dollars. The claim may be paid either in one lump sum or in monthly instalments over a period of twelve months, the monthly instalments averaging one hundred dollars.

From these figures it will be deduced that about 800 workers protected by group insurance will die each week. Of the 800 about 350 will leave absolutely no other insurance. This represents something more than forty per cent of the workers deceasing under group insurance coverage. It needs little imagination to picture the effect where death finds the worker without provision for expenses consequent to fatal illness or to realize the family situation where the worker was the

family breadwinner. Because of the group policy the family income from such worker will not cease with death but will be continued for approximately one year. From this angle group insurance fits into the definition of a great English newspaper as "an American scheme for giving the family of the deceased worker one year's notice of the demise of the pay check."

Averaging the amount of insurance carried on deceasing workers where in addition to group insurance the worker provided other forms of life insurance, it is found that such other insurance amounts to about \$2000. This latter average includes the relatively few large individual insurances carried by high-salaried executives, whose exceptional amount of insurance serves to appreciably affect the average of the great number of smaller insurances.

A discussion of group claims reaches beyond the numerical recital of lives insured, to include the list of beneficiaries. The 800 workers estimated to die weekly under group insurance coverage during 1927 would on the average have two other persons interested directly or indirectly as beneficiaries. This brings the number of beneficiaries intimately interested in the week's claim quota to 1600. Adding the 800 deceased makes a total of 2400 lives intimately affected in the matter of the week's group insurance claim list. How intimately these claim monies reach to the closest human relationship is evidenced by the fact that the 800 claims would subdivide about as follows:

Wife, 488; children, 88; father, 13; mother, 77; estate, 35; friend, 14; sisters and brothers, 57; husband, 6; parents, 2; trustee, 2; collateral heirs, 18.

Applying these percentages of relationships to the conservative estimate that forty per cent of the wage and salary workers in the United States have no other insurance, it follows that thirty-three per cent of all the workers who die leave behind relatives of the intimate type of parent, wife or child—where without group insurance coverage the loss of the pay envelope is usually a serious matter and in many instances a desperate one.

These figures seem sufficient to establish the economic value of a system of group insurance which would provide for all workers a sum of money sufficient to meet immediate necessities consequent on death, and to supply income for the few months while the family adjusts itself financially to the loss of the worker's pay envelope.

Two queries now suggest themselves: First, why relatively so little individual insurance among the workers of the country? and second, what is the genesis of this group system which is supplementing individual insurance in covering this field of the worker?

The answers to these questions illumine the whole subject of group insurance.

Why so little other life insurance on workers? The answer is to be found in working rules which in the main prohibit the time, piece and salary worker from being solicited by the life insurance agent. Life insurance in America has gone forward with the work of the agent. The reason why there is twice as much life insurance in the United States today as there is in the rest of the world combined is due chiefly to the superiority of the life insurance agency system in this country.

The agent operates to bring a message to the man who might reasonably conceive the message without the work of the agent, but does not do so in terms of action that mean life insurance protection on his own initiative. The agent is loath to solicit insurance after hours and the wage worker is loath to be solicited after his full day on the job. This field of the mass worker to the large degree indicated by the claim figures was uncultivated because its effective cultivation required a mass scheme to be applied by the employer in a mass way.

WHY GROUP INSURANCE

This general statement leads on to the answer to the second question as to the genesis of group insurance. The insurance needs of the deceased worker were evident from the occasional distressing case which would come to the attention of the employer for assuagement. Often this came to the employer in the secondhand form of knowledge that the fellow workers were digging into their pockets to make up a purse for burial or to relieve the immediate dire distress of the family.

In the old days before industrial units assumed large size, the employer knew his worker or his few workers, and the problems of the worker were made in some way the problems of the employer. With the development of mass production in huge units the employe soon lost individuality in the mass and the employer and employe alike lost something of human contact that made for co-operation in industry.

Group Insurance was born of the desire of the employer to do something in a mass way for his workers which would be frankly a bid for co-operation from the worker, on the basis of constructive interest shown by the em-

employer in the individual members of his group of workers.

The realization that employes were not properly insured, combined with the desire for protecting employes more completely, and to add a premium to the job, as it were, by better protecting the employes and the employes' family through some death benefit, culminated in the negotiations of a large mail order house, the Montgomery Ward Company, for the insuring of its employes. The size of the proposition attracted offers from many life insurance companies in various forms of individual insurance. The cost for such forms of insurance individually at permanent level premiums was high. Combined with the demand for selection of the risks by means of medical examinations the offers on basis of individual insurance proved unacceptable. This brought about the elimination of most of the life companies in the canvass.

ORGANIZED EFFORT

The negotiations resulted in the working out of a scheme upon the yearly renewable term plan without medical examination, insuring all the employes who had served one year or more for amounts based on the weekly wage and ultimately supplied the first large case of group insurance as it is now known. This policy became effective July 1, 1912. The size of this transaction captured public imagination with the result that it was widely heralded and has become identified in public opinion as the contract upon which group insurance established its saleability. It was written by The Equitable Life Assurance Society of the United States, which Company had, in the latter part of 1911, issued its first policy of group insurance to The Pantasote Leather Company, covering a group which was then relatively small, embracing about 125 lives. This

smaller group was under the management of one of the Directors of the Equitable, Eugenius H. Outerbridge, a student of industrial affairs, who proved a strong advocate on the Board of Directors Committee appointed by President William A. Day to consider what was then thought to be a revolutionary plan,—supplying life insurance without medical examination under the terms and conditions of a group contract issued to the employer. Mr. Outerbridge thus had firsthand information of the development of the group policy by the Equitable and supported his advocacy by a practical application to a company under his management.

The first organized effort to develop the business of life insurance on the group plan was the inauguration of a department of group insurance on January 1, 1912, by President William A. Day of The Equitable Life Assurance Society. This action, it is to be noted, antedated the closing of the large Montgomery Ward group by some time. At the end of 1912 the amount of group insurance reported in force was \$13,172,198. Of this amount the Montgomery Ward contract supplied \$6,307,734. The balance was made up of \$6,864,464, of which \$6,640,722 was issued by the Equitable and the remainder of \$223,742 by other progressive companies which were competitors for the Montgomery Ward case and which followed the Equitable into the group field.

GROWTH

The growth of the group business is best illustrated in the table on the following page, showing the amount in force, year by year.

The only slump in the triumphant progress of group insurance recorded in the table is shown for the year 1921 where a trifling recession is noted. It

Group insurance in force:

December 31, 1912	\$13,172,198
" " 1913	31,202,014
" " 1914	64,467,545
" " 1915	99,049,326
" " 1916	152,859,349
" " 1917	346,525,472
" " 1918	627,008,490
" " 1919	1,145,786,131
" " 1920	1,662,327,449
" " 1921	1,598,742,713
" " 1922	1,847,139,277
" " 1923	2,468,935,567
" " 1924	3,194,576,412
" " 1925	4,299,271,187
" " 1926*	5,600,000,000

* Estimated.

is to be remembered that this was the year of postwar industrial deflation involving much unemployment and shrinking payrolls. The Workmen's Compensation companies that year showed heavy decreases in income, which makes it the more noteworthy that group insurance should under such adverse conditions write enough new volume to practically fill in the gaps of the discontinuing patron and the shrinking employment roster. A large part of the outstanding volume of group insurance at the present time is accounted for in the business of the seven leading life companies. The number of companies actively engaged in the business is constantly increasing. More than seventy-five companies are recorded as now writing group insurance.

One of the remarkable features of group insurance to date is the low lapse rate. The net gain augmented in part by plans of insurance which increase with duration has yearly approximated the totals reported as new business.

ECONOMICALLY SPEAKING

In the earlier years exclusively and at present in degree group insurance premiums were paid entirely by the employer. The cost of a plan to supply the employees an amount of insurance

equal to one year's salary, with a maximum of \$3000 to those receiving more than that sum in salary, was found to average about one per cent of the payroll.

From the employer's standpoint the economic question was this: Would a payroll of 101 per cent, which would include the gratuitous element of a life insurance policy on the life of the worker for one year's salary, reaching through the worker to the worker's home where the ultimate effect of the insurance would be registered, give larger values to the employer than a 100 per cent payroll?

Perhaps the best general answer to this question of the employer was expressed by the Committee of the National Association of Manufacturers appointed to study group insurance, which reported in part:

Your Committee believe that those having in mind the improvement of conditions of those in their employ, so far as the same may be justified by a modest expenditure, will probably find in Group Life Insurance the medium which, dollar for dollar of such expenditure, will prove most beneficial to employer and employee alike, and therefore to the general improvement of industrial conditions.

The initial cases of group insurance paid for entirely by the employer removed all fear that group insurance would not be appreciated unless the employees paid part of the cost. As the business grew, cases in which the employer provided a reasonable amount of group insurance developed a demand on the part of the employee to be allowed to obtain additional insurance entirely at the employee's own cost. This hastened the development of so-called contributory group insurance whereby the premiums are paid for jointly by employer and employee. Both plans have worked well, the tendency at the present time being

rather in favor of larger amounts than were originally taken out, with the employee paying part of the premium cost.

DEFINING GROUP INSURANCE

As the group business developed, questions arose as to what was properly a group from a sound underwriting standpoint. This resulted in an agreed definition of group insurance being adopted by the Convention of Insurance Commissioners of the various states, which definition as embodied in the New York Statute is as follows:

Group Life Insurance is hereby declared to be that form of life insurance covering not less than fifty employees with or without medical examination, written under a policy issued to the employer, the premium on which is to be paid by the employer or by the employer and employees jointly, and insuring only all of his employees, or all of any class or classes thereof determined by conditions pertaining to the employment, for amounts of insurance based upon some plan which will preclude individual selection, for the benefit of persons other than the employer; provided, however, that when the premium is to be paid by the employer and employee jointly and the benefits of the policy are offered to all eligible employees, not less than seventy-five per centum of such employees may be so insured.

The New York statutory group insurance definition has been amended within the last year or two to permit the application of group insurance to units of the naval and land militia, and under certain conditions to labor unions. These amendments, however, do not open the door widely for the acceptance of such groups because the underwriting conditions that permit employees of one employer to be safely and advantageously insured on the group plan are not in all instances sufficiently present in other forms of group.

GROUP CLASSES

The definition provides for two classes of groups, the one in which the employer pays the entire premium, and the other, the so-called contributory group, where the employee shares in the premium cost.

The contributory group, the second type of group referred to, is formed by voluntary action of the employees in which the employer joins with the employee in paying part of the premium cost. Naturally it would not be reasonable to expect voluntary action from 100 per cent of any class of employees on any proposition. Therefore the rule in a contributory group is that a minimum of seventy-five per cent of all eligible for the insurance accept the same and that the group continue to maintain at least seventy-five per cent of all the eligible employees.

Those in the employ are insured according to some class rule. By class rule is meant, for example, insuring all employees who have been one year or more in service, or employees earning say \$1500 and over, per annum, or all of any particular department or activity constituting in itself a class.

These class rules will be readily recognized as necessary in group insurance since no medical examination is required. The strong support the weak. Thus does group insurance by including large classes of employees completely eliminate self-selection against the insuring company in the group where the employer pays all the cost, and in the contributory group minimizes the likelihood that the employee, conscious of his insurability, would stay out to the material detriment of the group.

Insuring employees of one employer in a going concern under class rules affords the practical assurance of an age distribution or age average for the group which will vary little. While

individually the members of an employer group grow older, it does not follow that the average or age distribution is affected by that fact, because as an offset younger lives are continually coming in as the older lives retire or de cease.

The more or less stationary character of the age distribution permits the use of the one-year term policy to produce practically an unvarying premium for the group. Hence for group insurance the use of the one-year term policy with its consequent low premium is sufficiently representative of current and, under ordinary conditions, of future cost.

The years have attested to the soundness of the theory of group non-medical selection. The mortality has been well within the tabularly expected rate and has approximated the ultimate mortality rates for individual lives in which the selection has been by medical examination.

Groups other than employe-employer groups must be judged from an underwriting standpoint by practically the same standards applied to employer groups and such groups that vary from ordinary conditions may tend to lose insurability under the group plan. Many employe association or labor union groups present substantially the same aspects from an underwriting standpoint as employes of one employer, but many groups of this type do not. Here enters underwriting judgment in passing upon such groups. A recent development in group insurance is the entrance of The Labor Union Life Insurance Company, a company organized by Labor Unionites on sound old line principles, one of its chief purposes being to serve labor unions in the matter of supplying group insurance.

The life insurance companies have used good judgment in pioneering in the group insurance field with the re-

sult that the business has been written on a profitable basis. It has increased the life insurance field by enabling the life insurance companies to reach out to lives not previously available to the agent and by co-operating with the employer in insuring masses of employes in a mass way. In group contracts life insurance companies have extended life insurance coverage to 4,700,000 workers for \$5,600,000,000 of insurance, using the estimated figures of December 31, 1926. To get a comparison as to what this means in insurance on the working people of this country it may be pointed out that the volume exceeds the total sum of industrial insurance in force on this Continent as recently as the year 1918. While group insurance is limited in its application to groups of not less than fifty employes of one employer and therefore must exclude all the small owners and small operators with less than fifty in the service, and for this reason practically excludes all agricultural workers, yet the sum total of lives insured represents about ten per cent of the total workers in this country.

The mass idea as introduced into life insurance by the group plan has in turn developed other plans of selling individual insurance to aggregations of employes under the Salary Savings or Salary Deduction plans. In these plans the employer fosters the taking out of life insurance by the employes and permits the premiums for such insurance to be deducted monthly by the paymaster and remitted in mass to the insurance company.

The life insurance company has by means of group insurance made far-reaching contacts with large employers that constitute important fields of influence for the extension of the regular business. The regular or individual new business of the six leading group insurance companies wholly exclusive

of group has increased, from the year 1920 to the year 1925 inclusive, about four times the ratio recorded for the six leading life insurance companies specializing in regular individual business only.

BENEFITS TO LIFE INSURANCE

Group insurance has realigned and is realigning the giants of life insurance. It is significant that the so-called group companies should be also the companies making the greatest gains in regular insurance. It is also to be noted that consistent with the development of group insurance from an idea in 1911 to its present large size, that the business of both ordinary and industrial insurance has increased prodigiously. The only absolute deduction to be drawn from this is a negative one; namely, that group insurance has not retarded the development of the business of life insurance in any department. How it has helped the development in other departments cannot be stated accurately because of the variety of influences at work in the leading group companies, not the least of which is the progressive character of the companies pioneering and entering the group insurance business in the desire

to extend their life insurance franchise to the fuller discharge of its obligations and privileges.

The ultimate end of group life insurance is, within the limits of good underwriting, to make group insurance as universal as the pay check. The pay check establishes the value of the worker's life and pleads the need of insurance to cover the hazard. In working toward this end the employer, the employee, the insurance company, the agent, and society at large is benefited. The benefit to society happily comes about in degree in the form of promoting production by promoting content through better industrial relationships between employer and employee.

Without attempting the baffling task of quantitatively measuring what group insurance has done or may do in avoiding wasteful industrial strife, in avoiding wasteful changes of occupation for trivial causes or in avoiding wilful neglect, is it not sufficient to conclude from the continuing rapid growth of group insurance that it fulfills at least in part the enthusiastic judgment of one great industrial organizer who said paradoxically that "the cost for group life insurance is a profit."

Life Insurance Companies and Pension Plans

By M. ALBERT LINTON, F.A.S., F.I.A.

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PENSION systems have their origin in humanitarian considerations. The employe who has given many years of faithful service must not in old age be thrown out of work without some means of subsistence. Unless there is a means of retiring him satisfactorily, he may be retained in the service far beyond the time when he can do his work efficiently. Although this may satisfy the employer's feeling of responsibility toward the aged employe, it may materially cut down the productive power of the group of workers. A well conceived pension plan meets the situation by supplying funds when they are needed to care for those who, for the good of the business, should retire. The retirement is effected comfortably and in a manner that does justice to all concerned.

Psychological considerations are always important in matters which affect group action. The very existence of a satisfactory pension plan conduces to better work by employes—especially by those in middle life who are beginning to see the possibilities old age may hold in store for them. It helps greatly to have them feel that they will be protected from an old age of dependent poverty. A few individuals of course will have the ability and the will power to save so that they will have funds available when old age comes. On the other hand, many will not do so and hence will present a problem when they become superannuated. Pension plans are intended to solve that problem.

Another psychological advantage of

the pension plan is that workers in their prime have greater prospects of promotion, since the old age retirements encourage movement all along the line. A loyal, contented force of workers, responding spontaneously to fair treatment, is one of the secrets of profitable management.

A pension principle grown gray with age is somewhat as follows: The worker is led to anticipate a pension that will be expressed as a percentage of his average salary during, say, the last five or the last ten years of his employment. The percentage is obtained by multiplying his years of service say by 2 or $1\frac{1}{2}$ or 1. There may also be a stipulation that the pension shall not fall below a stated minimum or rise above a stated maximum.

To provide such pensions employers have frequently set aside each year in a separate fund a certain percentage of the pay roll. Since pensions are obligations that normally mature only after many years, the fund in an average establishment is bound to grow to what may appear to the employer to be an inordinate size before the pension payments assume large proportions. During the period of growth—and it is likely to be a relatively long period—the employer may come to be well satisfied with his system. Everything seems to be running smoothly. Then one day a cloud “as small as a man's hand” appears on the horizon. It grows larger and larger until it becomes evident that a storm threatens. The actuary is called in. Insofar as he can make reliable as-

assumptions as to the future, he is likely to find that the present value of the liabilities is far in excess of the assets in hand plus the present value of the sums normally to be set aside for the pension fund in the future. Either the plan must be modified or the business must shoulder a serious financial burden—perhaps an impossible one.

This has been the tragic history of many pension funds and the fact is becoming known to workers. They want certainty. Hence the old-fashioned pension fund, unless established on a sound actuarial basis (and that is frequently impossible to accomplish because the unknown factors are too numerous) does not meet the basic requirements of a satisfactory pension system. The tragic failure of the pension plan of Morris and Company, the packers, has been a striking object lesson. The facts as briefly stated by the Babson Statistical Organization in their Business Supplement of September, 1925, are as follows:

The Morris Company Plan, started in 1909, was a contributory system with voluntary retirement at fifty-five and obligatory retirement at sixty-five. Twenty years' service was a prerequisite for the receipt of the pension. The company undertook to set aside \$25,000 a year until the fund had reached \$500,000. For thirteen years the plan operated and as employees retired their pensions were duly paid. By 1922 about 400 employees were thus pensioned when Armour & Company took over the Morris Company in a corporate merger. Those on the payroll of the Morris Company were absorbed in the pension plan of the Armour Company, but the 400 retired employees were left helpless. The Armour Company held they should be provided for by the former management.

Here is the startling point in the situation. When experts estimated—on the basis of life probabilities of the 400 pensioners—how much money would be needed

to pay their benefits, it was found that it would take \$8,000,000. A court decision, following a suit by a group of pensioners, held that the pension plan created no contractual liability on the part of the company.

The primary object in seeking the help of a life insurance company in setting up a pension plan is to make certain that pension obligations will be completely fulfilled. The life insurance company's first consideration will be to furnish a definite guarantee as to what a given series of current deposits will produce in the way of future pension payments. It will not underwrite a system which promises a pension to be determined as a percentage of the worker's salary during the latter years of his employment. The unknown factors underlying that system defy accurate actuarial forecast.

THE SINGLE PREMIUM DEFERRED ANNUITY PLAN

To meet pension requirements life insurance companies have developed a plan based upon the single premium deferred annuity principle. It is a plan under which future liabilities are completely provided for as they are incurred. Premium payments are made periodically to the life insurance company which in return guarantees the payment of a stated amount of life income commencing at the retirement age. This plan has been adopted by the New York Stock Exchange for the employees of the Exchange and affiliated companies.

A description of the way in which the Exchange plan works in the case of one of the employees will help to make clear the basic principles underlying the single premium deferred annuity plan. An employee thirty years of age had been in the service for five years and was receiving a salary of \$62 a week when the plan was inaugurated.

First the Exchange paid for a life income to commence at age sixty-five amounting to \$10 a month—arrived at by multiplying the period of past service by \$2. This obligation, having been paid for by a premium at the inauguration of the plan, was assumed by the life insurance company and, without reference to the future pension policy of the Exchange, was guaranteed to the employee provided he should remain in the service until age sixty-five.

The Exchange further undertakes, so long as the pension plan remains unchanged, to purchase each year an additional life income of \$2 a month commencing at age sixty-five. Should the salary rise above \$80 per week, the amount of income that would be purchased each year would be increased from \$2 to \$3. Assuming, however, that the salary remained below \$80 there would be purchased during the thirty-five years of service to age sixty-five a life income of \$70 a month (35×2). This with the \$10 a month purchased at the inauguration of the plan would mean a life income of \$80 a month or \$960 a year. The life income paid for in full by the Exchange is called the *service* income.

The Exchange, however, holds out a very real incentive to the employee to save on his own account. It will double the service income that it will currently buy for the employee, provided the employee will apply at least three per cent of each month's salary (taken to the nearest dollar) to increase the life income payable at sixty-five. Three per cent of the employee's salary in the present example yields \$8 per month. This payment for the remaining thirty-five years will provide a life income of \$68 per month—called the *annuity* income.

Assuming that the salary will remain unchanged, the retiring income

at age sixty-five will be \$218 per month made up as follows:

	Per Month
Provided at inauguration of plan	\$10
Service annuity of \$2 a month purchased by Exchange each year for thirty-five years	70
Additional service annuity of same amount purchased by Exchange because employee is a depositor	70
Annuity Income provided by employee's own deposits	68
	\$218

This amounts to \$2616 a year, more than eighty per cent of the present salary. If the employee desires he may deposit more than the minimum of \$8 per month and still further increase the retiring income arising from his own deposits.

In the event of death before the income payments begin, the beneficiary will receive the total deposits made by the employee (without interest). If the retiring income shall have commenced and the employee shall die without having received in aggregate monthly income as much as he originally deposited, the beneficiary will receive the balance. In the event that the employee becomes totally and permanently disabled after twenty years of service, payments will immediately begin on all the service annuities that have been secured for the employee up to the date of disability. In addition, payment of any further deposits on the employee's individual income annuity will be waived during disability. The effect of this waiver is to maintain the employee's income annuity certificate in full effect so that it will grow in value in precisely the same way as though he were himself making monthly deposits. Provision is made that if retirement should occur before or after age sixty-five the life income will be correspondingly reduced or increased. The employee receives a small certifi-

cate book which describes the plan and provides a space for the affixation of certain stamps evidencing the right to certain annuities as they are provided.

If employment ceases before retirement from a cause other than death or disability, the employee takes nothing with him on account of the service income for which the Exchange has been making provision with its own funds. Instead the Exchange receives an appropriate cash surrender value from the life insurance company. This cash surrender value is used in part payment of the premiums payable to the insurance company for the annuities that are currently being purchased. It is an important item and materially reduces what might otherwise be a heavy premium outlay.

As far as any individual employee may be concerned, there is a yearly increase in the premium paid by the Exchange for the given service annuity. For example, the single premium required at age fifty-five to purchase a stated life income commencing at age sixty-five will be approximately three times the corresponding premium at age thirty. If all employees who should live to age sixty-five should remain in the service, the aggregate premiums required would be continually on the increase and would prove a heavy burden to the Exchange in later years. However, there is the inevitable turn-over which is continually yielding surrender values from the service annuities of those who leave, thereby reducing the aggregate premium payments paid by the Exchange.

The single premium deferred annuity plan has the merit that the service income provided up to any given moment is completely provided for and does not create a financial problem for the future management of

the Exchange. Should the Exchange ever abandon the plan; the life income that has been purchased prior to the abandonment would not be affected for the employees who remain to the retirement age. The contracts issued by the insurance company are participating so that premium payments are reduced periodically by distributions of surplus. Some additional details of the Exchange Plan are given in the Note at the end of this article, p. 40.

THE LEVEL PREMIUM PLAN

It will be noted that the single premium annuity principle is not employed in connection with the premiums paid by the employee who becomes a depositor. He pays a level premium year after year (except when his salary changes) for the income annuity he is to receive from his own payments when he attains age sixty-five. As we have seen, the level payment of \$8 monthly at age thirty, continued to age sixty-five, will produce an income annuity of \$68 per month. We are therefore led to a consideration of pension plans involving level premium payments which life insurance companies have developed for handling the employer's obligation.

Although the details of the level premium principle are numerous, the primary characteristic is that the contractual premium paid by the employer year after year remains unchanged. If the contract is participating the premium will be reduced by periodical distributions of surplus. The premium at the outset will be larger than under the single premium deferred annuity plan, but it will not increase each year. Also the employer receives larger credits from the surrender values of those who withdraw.

The variations in the level premium

plan concern in large measure the benefits available upon withdrawal prior to retirement. The larger these benefits, the larger must be the premium to provide a given retiring income. In the Stock Exchange plan the withdrawing employee who has been paying premiums toward his income annuity receives back all he has paid in *without interest*. A footnote in the pamphlet describing the plan shows that at age thirty for example, \$3 a month will provide a monthly income annuity of \$25.50 beginning at age sixty-five. Under a plan in which interest would be allowed upon withdrawal this would be reduced to \$16.76. Expressed in another way, the interest plan at age thirty requires a fifty-two per cent greater premium to produce the same income annuity, commencing at age sixty-five.

Applying a level premium principle, the concrete case of the employee described under the Stock Exchange plan might work out as follows: If it is assumed that the employee is a depositor we have seen that in the event of his remaining in service until age sixty-five he would be entitled to a service annuity of \$150 per month. Instead of building up this income piecemeal by a series of increasing single premium deposits, the Exchange would pay the level premium on a service annuity of \$150 a month. Using the same table as that underlying the income annuity paid for by the employee, this would mean an outlay of about $6\frac{1}{2}$ per cent of his salary. This sounds high. However, the refunds from withdrawals would materially reduce the outlay as in the case of the single premium deferred annuity plan. The benefits available in the event of death after the life income has commenced may of course be the same under the level premium plan

as under the single premium deferred annuity plan.

GENERAL CONSIDERATIONS

It is not the function of this article to express a preference for one or the other of the two plans. Each has its merits. The specific circumstances may indicate which one would be the more satisfactory in any given case. Technical advice, however, should be sought. Life insurance companies specializing in the meeting of pension needs are always glad to help. The working force must be classified by age, sex, salary and period of service so that concrete figures may be obtained. If the employer is to receive a surrender value from the life insurance company when an employee drops out, then a rate of withdrawal will be assumed and will play an important part in the estimate of the cost to the employer.

It is generally accepted that the most successful pension plans are those which elicit active support from the employees. This support is evidenced by their contributing a part of the cost. In the Stock Exchange plan it will be recalled that the employee who is not a depositor receives merely a minimum unconditional service income. The Exchange undertakes to double the service income currently provided if the employee becomes a depositor by contributing at least three per cent of his salary. It should be the aim of all pension plans to encourage the employee to make some provision for his own old age.

A formal pension plan involving a specific retiring income for each individual should not be applied to a group of employees having a high rate of turn-over. If in a given age group, say the twenties, only one out of every twenty-five employees is likely to be in the service at the retiring age, it would

be wasteful to keep a complicated set of accounts for each of the twenty-five in order that the one person who lives to the retiring age may receive a pension. To meet this obvious difficulty it is sometimes practicable to apply the plan only to the employes as they come into a certain classification set up to eliminate the employes who are most likely to be impermanent. For example, an employe might not be brought into the calculation until he had attained a certain age and served a minimum number of years.

If it is impossible to establish a practicable classification that will produce a group showing a moderate rate of withdrawal, then the formal plans such as we have been discussing are of doubtful value. They would involve too much wasteful lost motion. About the best solution in a case of this kind is for the employer to set aside regular sums with which to build up a fund to buy annuities for the employes who reach the retiring age. The annuities would be purchased from a life insurance company so that their payment, once contracted for, would be put beyond the vicissitudes of the business.

The amount to be set aside should be determined with the aid of a qualified actuary. It would probably be expressed as a percentage of the current pay roll. However, at best it is difficult to make an accurate forecast since the uncertain element of persistency in the service plays a large part in the computation. Take for example a group of 100 employes, aged thirty to thirty-five. Whether five or ten or twenty will be in the service at age sixty-five, obviously has a large bearing on the amount of money that must be set aside to provide the premiums with which to buy the retiring income as the employes reach the retiring age. In passing it may be worth remark-

ing that by an arrangement with a fiduciary institution the employer can relieve himself of the management of the accumulating pension fund. Such an arrangement places the care of the funds in the hands of those skilled in investment matters and more effectively separates the pension fund from the current conduct and demands of the business.

In the plans that have been discussed the assumption is made that the employes who withdraw prior to the retirement age from a cause other than death or disability will have no vested interest in the funds set aside by the employer for his ultimate protection. This proceeds on the theory that the pension is to be paid in return for length of service and not on the theory that the pension funds are put aside as in a sense a part of the pay of the employe to which he is entitled if he leaves the service. Obviously the cost of a system which would give the employe a vested interest in the amount which the employer sets aside for his benefit, would be large.

ACCRUED LIABILITIES

No article dealing with pensions would be complete without reference to those troublesome things technically known as the "accrued liabilities." Like the poor, they are always with us. They are the major problem requiring solution in the establishment of practically every pension plan. What shall be done to make up for the past years during which there was no pension plan and in which, therefore, nothing was laid by to care for the employes who are approaching the retiring age? To build up a pension fund for them in the few years remaining before retirement requires a large sum that frequently weighs heavily on the employer.

There is no magic way by which the

problem of the accrued liabilities can be solved. They must be technically computed and then faced. They need not be met in one lump sum payment. They may be met in a series of payments extending over an appropriate period of years. The method in each particular case must be determined in the light of the given circumstances.

In the brief space available it has been possible in this article merely to outline a few of the phases of the great problem of pensions. Experience has amply demonstrated the need for bringing the maximum of certainty

ance from the outset. There is an increasing tendency in that direction.

Note: Additional Details of the Stock Exchange Plan

(In this note are included a few additional details of the Stock Exchange Plan which was described in its application to an employe aged thirty who had been in the service five years when the plan was inaugurated.)

For each year of service during which an employe's salary falls into one of the following classifications, the employe will receive an unconditional service annuity, paying a life income from age sixty-five as follows:

<i>Salary</i>	<i>Annuity for Each Year of Service</i>
Class A—\$40.00 a week and under.....	\$1.00 a month
Class B—\$40.01 to \$60.00 a week.....	1.50 a month
Class C—\$60.01 to \$80.00 a week.....	2.00 a month
Class D—\$80.01 a week and over.....	3.00 a month

into any pension plan. This is the primary reason why the help of life insurance companies is being sought. When the group of employes is unstable, continually changing, the problem is quite difficult. The life insurance company cannot be of much help during the active service of the employe. It can, however, take over the retiring income by selling an appropriate type of annuity contract

For service rendered before July 1, 1925, when the plan was inaugurated the employe was considered being in the Salary Class in which he was on July 1, 1925.

If an employe becomes a depositor by depositing through pay roll deductions each month a minimum of three per cent of his salary (to the nearest even dollar), the Exchange will double the service annuity insofar as future service is concerned. Thus, for depositing employes, the following scale of service annuities will hold:

<i>Salary</i>	<i>As to Service Before Beginning Deposits</i>	<i>As to Service After Beginning Deposits</i>
Class A—\$40.00 a week and under.....	\$1.00 a month	\$2.00 a month
Class B—\$40.01 to \$60.00 a week.....	1.50 a month	3.00 a month
Class C—\$60.01 to \$80.00 a week.....	2.00 a month	4.00 a month
Class D—\$80.01 a week and over.....	3.00 a month	6.00 a month

when the retirement occurs. On the other hand, when a group of employes is sufficiently stable, the life insurance companies can render material assist-

The following table gives the amounts of income annuity, in addition to service annuity, secured by men employes who deposit either \$3 or \$5 or \$10 each month:

<i>Age at Entry into Plan</i>	<i>Monthly Deposits</i>		
	<i>\$3.00</i>	<i>\$5.00</i>	<i>\$10.00</i>
<i>Income Annuity Payable Monthly for Life After Age 65</i>			
20.....	\$45.42	\$75.70	\$151.40
25.....	34.32	57.20	114.40
30.....	25.50	42.50	85.00
35.....	18.54	30.90	61.80
40.....	13.11	21.85	43.70
45.....	8.85	14.75	29.50
50.....	5.55	9.25	18.50

If the employee leaves the employ or withdraws from the plan, he has three options:

- (a) He may receive a full income annuity on his deposits by continuing to make regular deposits directly to the insurance company until age sixty-five, or
- (b) He may receive a monthly income for life after age sixty-five proportionate to the deposits he has already made, or
- (c) He may receive his money back in full (without interest).

The Development of Adequate Protection for the Disabled Life Insurance Policyholder

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ONE of the most impressive features in the recent development of the life insurance business has been the rapid increase in the value and popularity of the disability provision in life insurance policies. Only twenty years ago the disability provision was a crude experiment, adopted hesitatingly by a few life insurance companies. It had many imperfections, its worth as an insurance measure was comparatively little. Like the "horseless carriage" it was viewed with suspicion by some, and dire predictions were made regarding the difficulties and disappointments which would follow its adoption.

During the last two decades, however, many important changes have taken place in the quality of the disability protection offered, the attitude of life insurance companies towards the innovation, and its reception by the insuring public. Today, the amount of life insurance outstanding in the United States and Canada under policies containing a disability provision totals over \$29,000,000,000, according to an estimate based on data recently obtained from a large number of representative companies, and this huge amount is being increased by about \$4,000,000,000 yearly. About thirty-eight per cent of the new life insurance policies now being issued include a disability provision and 253 out of 259 companies are using such a provision in their contracts. The economic significance of this development is shown by the fact that already the disability benefits promised by outstanding life insurance policies total

more than \$3,200,000,000 yearly, or nearly as much as the annual expenditures of the United States Government.

There are several reasons for this tremendous growth in the amount of disability protection furnished by life insurance companies. It is obvious that the value of the disability provision as a "talking point" in the sale of life insurance is very great. Total and permanent disability is feared instinctively by everyone. It does not appear so remote as death or old age. To a man or woman whose entire income would cease at disability the appeal furnished by the disability provision is strong.

Furthermore, the modern disability provision is being accepted as a sound insurance measure. It has been said that "*life insurance is a system devised to protect someone against the economic loss caused by the termination of a producing power.*" The producing or income-earning power of a person may be terminated by any one of the three major physical hazards of life—death, old age, and total and permanent disability. The well-known endowment policy furnishes insurance payable if the insured should reach old age or if he should die before that time. The disability provision now furnishes protection in case the insured should be totally and permanently disabled. Thus the policyholder's insurance program may become definite and well-rounded. Should his earning power be terminated by any one of these three causes, a life insurance policy of suffi-

cient amount will provide funds to relieve the financial strain thus created.

It is a fair question, however, to ask whether the modern disability provision actually is meeting this economic need and furnishing adequate disability protection. Is the increasing popularity of the disability provision fully warranted? In order to answer this question dispassionately, let us analyze the modern disability provision and determine whether it is meeting the needs of the disabled policyholder.

MODERN DISABILITY PROVISION

There are two important parts of a disability provision: first, the definition of disability which indicates the circumstances under which the insured will receive disability benefits; and second, the description of the benefits to be given if the disability should occur. As each of these parts has a great bearing on the value of the disability provision, it will be enlightening to consider them separately.

The Definition of Disability.—In framing the definition of disability, it has been an almost universal practice to ignore trivial disabilities which have no great economic significance. The "termination of a producing power" by bodily injury or disease is the contingency against which protection is desired. Consequently, until recently, the disability provisions have furnished protection only against "total and permanent disability." Temporary disability, interrupting the insured's income-earning ability through a short sickness, or partial disability reducing somewhat his earning power but not terminating it, have not been covered. These less serious types of disability have not been considered to be in the same class as the three major physical hazards, death, old age, and total and permanent disability. Another practical reason has been that the premium

for the disability provision would be increased considerably if benefits were to be paid on account of these relatively minor types of disability. A typical policy definition of "total and permanent disability" is as follows, the insured being entitled to qualify for benefits under either part of the definition:

- (1) The entire and irrecoverable loss by bodily injury or disease of the sight of both eyes or of the use of both hands or of both feet or of one hand and one foot; or
- (2) Disability caused by bodily injury or disease, which wholly prevents the insured and presumably will for life continuously and permanently wholly prevent him from engaging in any business or occupation or performing any work for compensation, gain or profit.

Under definition (1) certain severe forms of disability are specifically covered even if the insured may be able to earn an income in spite of his handicap. This definition is used by about twenty-nine per cent of the companies, most of the remainder requiring that the two hands, two feet, or one hand and one foot must be completely severed at or above the wrist or ankle respectively. The tendency seems to be, however, for companies to adopt the more inclusive provision quoted above.

Definition (2) is a much more important one as most of the total and permanent disability claims fall within its scope. The disability must be total so that it will "wholly prevent the insured from engaging in any business or occupation or performing any work for compensation, gain or profit." This seems a stringent provision, that the policyholder must be unable to engage in any conceivable occupation of the most trivial nature. In the actual handling of claims, however,

companies have considered a person as totally disabled if, *to all intents and purposes*, he is prevented from working for a living because of bodily injury or disease. A consideration of the causes of disability shown below will reveal the fact that, in practice, the disability provision actually covers those types of severe disability which prevent the insured from earning a livelihood.

The further requirement under definition (2), that the total disability shall be presumably *permanent*, has created some difficulties in the handling of disability claims. It is often impossible for any one to determine with certainty whether a given total disability is or is not permanent. The best of medical authorities may differ in the diagnosis of a given disease and the prognosis of its future course. In order to minimize the resulting complications, a number of companies have adopted a reasonable interpretation of "permanent" disability so that cases of total disability which undoubtedly will be of long standing are considered permanent. The fact that many policyholders granted disability benefits have recovered from their "permanent" disability shows that companies have handled this matter in a liberal way. Nevertheless, the requirement that the disability shall be presumably permanent necessarily introduces a certain area of doubt into the disability provision.

In 1920 the difficulty was solved by a further provision that total disability would be presumed to be permanent after it had existed continuously for ninety days. This was a great step in advance, as any doubt regarding the permanency of the disability was resolved in favor of the policyholder after ninety days. This broadened definition, which is popularly known as the "ninety days" clause, is being adopted rapidly and it is estimated that over

sixty-five per cent of the new insurance now issued with a disability provision contains such a definition.

It would seem that this "ninety days" provision should cover any disability which is likely to cause either the termination or the serious interruption of the insured's earning power. However, in order to settle this question let us analyze the types of claims actually approved under this definition.

Analysis of Actual Disability Claims.

—In 1926, the Actuarial Society of America published the results of an investigation of 6845 disability claims experienced under the "ninety days" clause by life insurance companies in the United States and Canada. The various causes of these claims are shown in the following table:

TABLE I—CAUSES OF DISABILITY UNDER "NINETY DAYS" PROVISION

Cause	Percentage of Total Disabled
Tuberculosis (mainly of lungs) . . .	20
Accidents	18
Neuralgia, neuritis and similar diseases	8
Insanity, melancholia, paresis and neurasthenia	5
Appendicitis	5
Rheumatism	4
Cancer and other malignant tumors	3
Diseases of bones and organs of locomotion	3
Heart disease	2
Bright's disease	1
Other causes	31
	100

Tuberculosis of the lungs is the most important single cause of disability. The "ninety days" provision gives most efficient protection in event of disability from this cause. It insures

that the policyholder will receive benefits during the remainder of his total disability, even if it seems likely that an early recovery will result. By reason of the disability benefits received, the insured may be enabled to secure proper medical and sanitarium treatment, so that the likelihood of recovery is made greater and the period of total disability shortened—a most constructive economic result.

The percentage of disability claims resulting from accident is larger in the above experience than normally will be obtained after the “ninety days” provision has been in use for a longer period and a greater proportion of policyholders has reached a more advanced age. At the older ages, both tuberculosis and accident become less important relatively and there is an increasing proportion of claims from degenerative diseases and insanity. As has been pointed out by other writers on the subject, *disease* is by far the most important cause of total disability, although disability caused by accident attracts attention because of its more sensational nature.

The Risk of Disability.—The types of disability set forth in Table I vary widely in their effect upon the finances of the insured and his family. Some are of comparatively short duration, others may be expected to persist for life. The economic importance of the disability provision depends on two factors: first, the size of the risk of disability against which protection is offered; and second, the length of time for which the disability continues and benefits are paid. It will be interesting to attempt to measure these two factors and thus to make what may be termed a quantitative and qualitative analysis of the risk of disability. To obtain the information necessary for such an analysis, reference has been made to the published disability experience of

life insurance companies,¹ to the mortality experience of the company with which the writer is connected, and to fire insurance rates for protected brick and frame dwellings located in Philadelphia and its suburbs.

The first column of the following table traces the subsequent fortunes of a group of 1000 men aged twenty-five. For example, it shows that before age sixty about 213 of them will have died; and about 162 will have become totally disabled for a longer or shorter period of whom fifty-two will live and remain disabled for two years or more. A similar table is given for 1000 men aged thirty-five, forty-five, and fifty-five respectively. These life histories are traced only to age sixty, as the period before that age represents the major part of the average person's income-earning career and the comparisons thus have a greater economic significance.

Most of the cases of disability which continued for less than six months were terminated by the recovery of the policyholder; but nearly all of those cases continuing for at least two years were terminated by death, the disability provision thus furnishing protection to the insured during his remaining lifetime.

Several interesting deductions may be made from this table. Under the “ninety days” disability provision, the likelihood of becoming disabled before age sixty and receiving benefits for a longer or shorter period is over three-fourths as great as the risk of dying before that age. The risk of becoming disabled before age sixty and continuing in this condition for at least two years is several times as great as the chance of death from accident before

¹ The data for “Class (2)” and “Class (3)” of the Actuarial Society investigation above mentioned, “Class (3)” being given double weight.

TABLE II—APPROXIMATE NUMBER OF POLICYHOLDERS OUT OF 1000 EXPECTED TO SUFFER BEFORE AGE 60 THE CONTINGENCY SHOWN

Contingency	Out of 1000 Men Aged 25	Out of 1000 Men Aged 35	Out of 1000 Men Aged 45	Out of 1000 Men Aged 55
<i>Disability Under "Ninety Days" Provision, Continuing for the Following Period After Benefits Commence</i>				
Any period whatever	162	140	112	55
At least 6 months	99	86	69	34
" " 2 years	52	46	37	19
" " 5 "	32	30	25	12
" " 10 "	22	21	17	8
<i>Death</i>				
From any Cause	213	185	147	59
" Accident	16	13	9	2
" Heart disease	26	25	21	7
" Tuberculosis	22	14	8	2
" Pneumonia	16	14	11	5
<i>Fire Loss on Average Residence</i>				
The total fire losses of any size paid to the 1000 men before age 60 are equivalent to payment of full value insured to about	34	24	14	5

age sixty. In fact, the chance of becoming disabled before age sixty and remaining so for at least *ten years* is nearly as great as the probability of death before age sixty from such an important cause as heart disease.

The financial effect of the residential fire hazard is shown by the fact that among 1000 men aged thirty-five, the aggregate residential fire losses experienced before age sixty are, on the average, about equivalent in amount to the payment of the full amount of the fire insurance policy to twenty-four men out of the group. In reality, of course, the average loss by fire is a small proportion of the amount insured, and the number experiencing a fire loss is greater. At age thirty-five, twenty-one may expect to become totally disabled before age sixty and remain so for at least ten years. The financial consequences to twenty-one persons, resulting from such a lengthy disability with

the consequent termination of all earned income, would appear to be much greater than that of complete loss of one's residence by fire occurring to twenty-four persons. Prudent men protect themselves against the risk of loss by fire; this comparison emphasizes the wisdom of carrying insurance against the risk of disability.

It should not be inferred, however, that the disability provision is the most important part of the life insurance contract. The above table shows that the risk of death is considerably greater than the risk of long continued disability and the likelihood of living until old age saps the strength and earning power is even greater. The disability provision, however, fills a distinct part in "completing the circle of insurance protection" and if it is omitted from the policy contract there is a substantial risk left uncovered.

BENEFITS IN EVENT OF DISABILITY

The second important part of a disability provision is the section which describes the benefits granted if the policyholder should suffer disability as defined in the policy. Here, too, there has been a great increase in the value of the disability provision in the last two decades. Let us examine the modern disability clause in the light of the needs of a disabled policyholder.

As long as the insured remains disabled without income, his family is in worse financial straits than if he were dead. To the living expenses of the family must be added the cost of any doctors' and nurses' services, hospital charges and other expenses of a disabled person. There is a great need for income to replace in part the earnings of the insured which were terminated by the disability. Furthermore, the life insurance carried by the insured is in danger. The premium payments become difficult to meet and, on the other hand, if the policy has a cash surrender value, there is a strong temptation to cancel the insurance outright and to obtain much needed funds. In order to remove this temptation and to preserve the insurance, it is essential that no premium payments should be required during the insured's disability and that an income of a fixed amount should be paid to him.

The modern disability provision meets this situation adequately. As soon as the insured becomes eligible for disability benefits, he is relieved from the payment of further premiums and commencing on the date when due proof of approved disability is presented to the insuring company, he receives a monthly income of \$10 for each \$1000 insurance, as long as he remains totally disabled. Under a policy for \$25,000 insurance, for example, this income would be \$250 monthly,

a substantial amount. Many companies provide for the disability income to be continued for the life of the insured, so that even after the maturity of an endowment policy the disability income is paid as long as the total disability exists. This provision is a rather liberal one and while it may do some violence to the theory that the proceeds of the matured endowment policy are intended to replace the insured's lost earning power thus making the disability income redundant, nevertheless, the additional funds are welcome as many policyholders do not carry an adequate amount of life insurance.

Under the modern disability clause, the payment of these disability benefits does not interfere with other policy provisions. Dividends, cash and loan values, the insurance payable to the beneficiary if the insured should die or to himself at the maturity of an endowment policy—all are the same in amount as if the insured had not been disabled but had continued to pay premiums. This marks a great advance over earlier forms of disability provision, under which the insured received the disability benefits at the expense of the beneficiary and the insurance payable to the beneficiary was reduced materially if not entirely after the disability of the insured had continued for a long period. Fortunately, this rather undesirable feature appears in but few disability provisions now issued.

Space will not be taken to make an inventory of the less liberal disability provisions used by some life insurance companies in connection with new insurance. Time and the healthful influence of competition will tend to cause the improvement of those provisions which are seriously inferior. The situation today is far different from that outlined twelve years ago in

these pages,² at which time many objectionable disability provisions were to be found and grave defects existed in many others. The greatly inferior clause is now the occasional exception. A few provisions survive which not only require that the disability shall be both total and permanent, but that the first payment of disability income shall be made six months after the fact of total and permanent disability has been established. This clause is manifestly imperfect from an economic point of view, because of the hardship which such a long waiting period entails upon the insured and his family. Several other clauses provide that a waiting period of thirty, sixty or ninety days must elapse before proof of disability may be submitted even if the disability is total and obviously permanent. These requirements seldom appear in the newer "ninety days" provision, which usually provides for benefits to commence immediately (or practically so) upon receipt of proof of disability covered by the policy.

OTHER FEATURES

Limiting Age.—Nearly all of the modern disability provisions cover only disability occurring before the insured reaches age sixty, although a few extend this limiting age to sixty-five. Such a limitation is necessary because it is difficult to obtain reliable statistics regarding total and permanent disability at the older ages, and disability due to "bodily injury or disease" cannot be distinguished always from disability due to the infirmities of old age. A few companies provide a modified and smaller benefit in event of disability after the limiting age. This benefit

often takes the form of relief from payment of premiums, such premiums as are waived to be deducted from the insurance payable to the beneficiary.

Women and the Disability Provision.—An interesting anomaly is found when the disability provision is issued to women. The death rate among business women is favorable, thus making them excellent risks for life insurance. The rate of disability, however, is about fifty per cent heavier than among men. As an offset to this higher claim rate, some companies charge women a fifty per cent higher premium for the disability provision, while others charge the same premium as for men but modify the disability benefits correspondingly. Still other companies do not issue the disability income provision to women under any conditions, while on the other hand some companies grant the provision to women on the same terms as to men. Most companies, however, do not issue a disability provision to married women. The whole situation evidently is in a transitional stage with companies endeavoring to find the best solution consistent with sound insurance principles.

Limits of Amount.—The companies establish limits of insurance in connection with which they are willing to issue the disability provision. These limits are usually not over \$25,000 or \$50,000 for the disability income provision and \$50,000 to \$100,000 for the premium-waiver-only provision. It is often required that the insured's disability coverage in all companies combined must be well within the amount of his earned income which would be terminated if he should become totally disabled. These limits are necessary as the incentive to malingering is greater and the tendency is for a disability claim to continue for a longer period, in the case of

² Bruce D. Mudgett:—"The Total Disability Provision in American Life Insurance Contracts," Supplement to *The Annals of the American Academy of Political and Social Science*, May, 1915.

a person who would receive a disability income almost equal to that derived from his regular occupation.

RECENT DEVELOPMENTS

It is evident that the development of the disability provision has by no means ceased. Clauses with new variations in the definition of disability and the benefits specified are appearing from time to time. As some of these provisions may have an influence on the development of the disability provision in the near future, it will be interesting to consider them.

Extension of Benefits.—Although the income payable during disability is usually described as \$10 monthly for each \$1000 insurance, certain departures from this standard have been made recently. Two companies, at least, fix the amount at \$15 monthly per \$1000 insurance. At least three others provide for the income to be \$10 monthly per \$1000 insurance for the first five years of disability, \$15 monthly for the second five years and \$20 monthly thereafter. This "accumulative" benefit does not increase the premium greatly, for, as shown in Table II, the increased benefits after the fifth year would be received by only about twenty per cent of the persons who had become disabled. Another company uses an alternate disability provision specifying an income of \$5 monthly per \$1000 insurance. A few companies do not provide for any income whatever, limiting the disability benefits to the premium waiver only, and many others will issue the premium-waiver-only provision on request.

In this connection it may be interesting to discuss what general considerations should be borne in mind in establishing the amount of monthly disability income for each \$1000 insurance under the policy. Undoubtedly the disability income should be

large enough to minimize the temptation to surrender the policy for its cash value. However, the income payable in event of disability should not exceed greatly the income which would be available under the so-called optional methods of settlement when a policy is terminated by death of the insured or by maturity as an endowment; otherwise the least important of the three major contingencies covered by the policy would be given the most weight. While no dogmatic conclusion can be reached, the income of \$10 per month per \$1000 insurance seems to be a reasonable one in the light of these considerations, the income of \$5 monthly appears somewhat small and the income of \$20 per month disproportionately large.

Another one of the newer developments is in regard to the exact date from which the benefits commence. The usual "ninety days" clause provides that if the insured is totally but not presumably permanently disabled, the first monthly income payment falls due after he has remained totally disabled for ninety days, no payments, however, being made for the ninety days. Several disability provisions which have appeared recently specify that in such case, after the insured has remained totally disabled for ninety days, the disability income will be retroactive so that the first monthly payment will be made as of the end of the first month of total disability, the temporarily disabled insured thus receiving two more monthly payments than under the older form of "ninety days" clause in general use. The main disadvantage of this new provision is that much of the increase in premium which is required for it, is due to the additional income payments to be made on the many cases of total disability of short duration, whereas the main purpose of the disability provision

is to afford coverage in cases of long continued total disability.

A recent development has been the definite provision that disability benefits will be paid from the date when the policyholder was first eligible to receive them, regardless of the time elapsed until the company receives notice of the disability. At present the majority of the disability provisions specify that benefits shall begin only "after date of receipt by the company of due proof" of disability. The reason for this requirement is obvious. When a considerable length of time has elapsed since the beginning of disability it is difficult to establish the exact date when it commenced, as many facts have become blurred with the passing of time and the usual independent medical examination of the insured at the outset of his disability cannot be made by the company. On the other hand, it has been felt that if, for example, the policyholder had become insane and was confined to an asylum and the disability claim was not presented perhaps because the family was unaware of the existence of the disability provision, it is rather illiberal not to date back benefits, if all the facts are clear.

These points of view are in some cases being crystalized in disability provisions, a few companies specifying that benefits shall be dated back to the beginning of disability whenever occurring, provided the disability is still in existence, while others provide that the benefits shall be so dated back for not more than six months. This latter provision has been adopted by several companies recently and has gained favor because it seems to be a practical solution of the problem, furnishing a middle ground where the consequences of the delay in making claim are shared by the insured and the company.

Variations in the Definition of Dis-

ability.—The provision in the "ninety days" clause that total disability will be presumed to be permanent after it has continued for ninety days, is varied by some companies, a period of thirty days, sixty days or six months being used. If the period specified is too short, many relatively minor temporary disability claims must be provided for, thus making the premium considerably higher. On the other hand, a waiting period of six months entails hardship as already stated above, because of the long period of time before benefits commence. The "ninety days" clause seems to furnish a reasonable compromise between these extremes.

Occupation Disability Provision.—Another recent development has been the broadening of the definition of disability to cover cases where the disability causes loss by preventing the insured from following an occupation for which he has undergone a long and specialized training. If, for example, a successful practising dentist should lose the fingers of one hand and thus be compelled to give up his profession, he would suffer a financial loss proportionate to the difference between the income he was receiving from his profession at the time of his disability and that which he is able to earn thereafter. In former numbers of *The Annals*³ it was urged that the definition of disability should include disability which renders the policyholder incapable of pursuing his regular vocation. It was pointed out that the use of such a definition would not increase greatly the premium for the disability provision, but, on the other hand, the provision would give more adequate coverage to persons engaged in professional work.

³ Bruce D. Mudgett, *The Annals of the American Academy of Political and Social Science*, Supplement for May, 1915, p. 47; regular number for March, 1917, p. 144.

In the last three years two life insurance companies have commenced to issue such a disability provision to persons engaged in certain specified professions, at a premium which is about fifty per cent higher than that charged for the regular disability provision used by these companies. This broadened provision is similar to the "ninety days" clause described above, except that total disability is defined as "disability caused by bodily injury or disease which wholly prevents the insured from following his occupation." The professional men covered are physicians and surgeons, lawyers, qualified osteopaths, dentists, auditors and accountants possessed of proper degrees, and male teachers in high schools or colleges who have been teaching for at least three years prior to application. This definition of disability is somewhat like those employed for several years by certain accident and health insurance companies.

Different opinions exist regarding the desirability of using this definition of disability in the life insurance contract. One point of view is that it is unwise as well as economically unsound to use a disability provision which will reduce the financial incentive for a policyholder to make the effort to become successful in a new occupation after he has suffered a disability which prevents him from following his former occupation. If a young dentist should lose the fingers of one hand and be prevented thereby from following his occupation, there would be many other gainful occupations open to him where his impairment should not interfere greatly with his earning capacity. At worst, his disability would cause a temporary loss or reduction of income. The payment to him of a disability income for life, would seem to be an economic absurdity. On the other

hand, if he were a much older man at the time of disability, it would be much more difficult for him to adjust himself to the changed conditions and to enter, with any prospect of success, a new strange field of endeavor, although even here in many cases the change of occupation might be accomplished successfully after a period of readjustment.

It is felt by some students of the subject that the present "ninety days" clause with the usual definition of total disability affords protection in most of the economically deserving cases encountered, without making it necessary to pay a disability income for life to a policyholder with a minor but permanent physical disability who, while prevented from engaging in one specialized occupation, may be able to engage in other equally gainful occupations after a period of readjustment. As the "occupational" clause has been applied only to a very few specified professions, and its extension to other occupations would not only create some underwriting difficulties but would also require an elaborate classification schedule similar to that used by accident and health companies, thus increasing the expense to all for the benefit of a few, it is felt that where special "occupational" coverage is desired the client could obtain it from an accident and health insurance company, although this course would not be necessary in most instances.

The other point of view is well stated in the former numbers of *The Annals* referred to above. It will be interesting to follow the development of this "occupational" disability provision and to see to what extent it will be adopted by life insurance companies.

SIGNIFICANCE OF DEVELOPMENT OF DISABILITY PROVISION

One of the most significant features of the rapid development of the dis-

ability clause has been the fact that this development has been entirely unaccompanied by regulatory state legislation. In the earlier days of life insurance it was not uncommon for companies with inferior or deficient policy provisions to be compelled by legislative enactment to improve their contracts.

The history of the disability provision exemplifies the great change which has taken place in this respect. The development of the disability provision from its early crude stage and the almost universal improvement of inferior clauses have come solely through the initiative of the life insurance companies themselves. They illustrate vividly one of the most interesting phases of modern business—the continual effort to uncover latent eco-

nomic needs and to supply the means with which to meet them.

Unhampered by legislative restrictions which at times may crystallize the *status quo* instead of encouraging further upward evolution, and urged by the stimulus of healthy competition and desire for company leadership in progressive measures for the benefit of policyholders, the companies have broadened and liberalized the disability provision until it has become a valuable feature of the life insurance contract. The disability provision is a child of the modern institution of life insurance and the tremendous popularity which it now enjoys is a testimony to the fact that, in developing this newer phase of insurance protection, the efforts of the companies have met with public approval.

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Life Insurance as an Aid to Education and Philanthropy

By JOHN A. STEVENSON, PH.D.

Second Vice-President, The Equitable Life Assurance Society of the United States

COMMENTS on the rapid growth of the life insurance business during recent years usually are to be found on the financial pages of the various daily papers. It is not strange, therefore, that the facts and figures most often brought before the attention of the public are those dealing with the gigantic volume of funds accumulated by the life insurance companies and the number of billions of insurance in force.

Like all business organizations, the various life insurance companies are making an effort to increase their volume of business year after year, and the public is interested in the aggregate result. Few people stop to realize, however, what the life insurance companies are trying to do in the way of improving the service they offer to the public.

It goes without saying that the various companies are not attempting to offer yearly model policies, including advantages and features in the "1927 models" which the "1926 models" did not possess. What they are attempting to do is to assist their policyholders in carrying out their plans for the future.

AS A PHILANTHROPIC AGENCY

Formerly most insurance was bought and sold on the theory that a \$5000 or \$10,000 policy was a good thing to have, and the bigger the policy the better off both agent and policyholder were. During the past few years, however, the insurance companies have stressed the importance of insurance as

a means of serving human needs; that is, they have attempted to show how insurance may be used to extend the economic value of a human life into the future, and they have provided modes of settlement under their contracts by means of which policyholders may attain specific objectives.

The increasing appreciation of the value of insurance on the part of the public and the realization that insurance provides a practical method of assuring the fulfilment of particular plans, have resulted in the use of life insurance not merely for family protection, but for the replacement of a key, man's financial value to his business, for the prevention of shrinkage in estates due to inheritance taxes, and for philanthropic purposes.

Most life insurance is bought today and most life insurance will be bought tomorrow in order that when a policyholder dies, the insurance money may, wholly or partly, replace his earning power to his family. When we realize that in this country today there are over 58,000,000 policyholders whose total life insurance amounts to approximately \$80,000,000,000, and take into consideration the fact that a large part of this insurance is for the protection of women and children, the institution of life insurance assumes gigantic proportions as a philanthropic agency.

HELPING THE INDIVIDUAL

In many cases the life insurance funds constitute the only money on which the family can depend in case

the breadwinner dies. Even a small amount of life insurance may mean the difference between independence and dependence for that family. A survey of the "Aged Clients of Boston Social Agencies" showed that 213 of the 404 women needing charitable aid received less than six dollars a week. It requires little effort, therefore, to visualize the benefits of a life insurance policy which would provide a life income of \$25 a month. The preface to this survey, moreover, makes the following significant statement:

The results of this study prove that the risks of being left without the means of meeting the economic helplessness or expensive illness of old age are not confined to the workers with low earning capacity, but are shared by persons in all ranks of society.

Life insurance, likewise, makes its contribution to education by helping the individual. Most present-day parents are anxious to have their children equipped for successful careers by adequate education. The stumbling block is often lack of funds. A laboring man may earn enough to support his family and send his son to high school as long as his income continues. But suppose the father is killed in an accident when the boy is still in the lower grades. The chances are the son will have to leave school as soon as the law permits in order to support himself, and possibly to support his mother also, unless life insurance funds replace the father's earning power in the form of an income payable until the boy has at least had an opportunity to finish high school. In cases of this kind, life insurance furnishes the one method by which the breadwinner can protect his family. Day-by-day expenses take the greater part of his wages. He can, therefore, save only relatively small amounts yearly and

other systems of saving would provide for his family only the amounts which he had actually saved instead of the amounts he had hoped to save if he lived.

While, of course, a college education in most cases cannot be regarded as an absolute essential to success, it is nevertheless true that under modern business conditions it is becoming more and more of a necessity if a man is to make his mark in the world. Between 1910 and 1923, for example, the enrollment in our higher institutions of learning has almost doubled, rising from 340,000 in 1910 to 626,124 in 1923. Since the increase in our population during this period was not nearly so great, rising from 91,972,266 in 1910 to 110,663,532 (estimated) in 1923, the fact seems obvious that if a greatly increasing proportion of our citizens are college-trained, those who do not have this training will be more and more at a disadvantage.

Many life insurance companies have made special plans for safeguarding the education of the youth of this country by means of "educational policies." In the event of the father's death, the funds payable under an "educational policy" are held on deposit by the insurance company until the child reaches college age, and then may be paid in instalments during the college course.

Since, even if the father is living, lack of funds at the time a boy or girl is ready to go to college is often the difficulty which stands in the way of a college education, a simple method of guaranteeing that the necessary funds will be available, whether the father lives or dies, is to have the policy written on the endowment form. In case the father dies, the funds may then be held on deposit by the insurance company until needed for college expenses; if the father lives, the funds

will be ready without causing a heavy drain on the family pocketbook.

If we look on life insurance as a means of serving human needs, such as the need for support on the part of the family and for education on the part of the children, there is no reason why it should not be looked upon as a means of serving institutional needs as well. The same difficulties might prevent a college from receiving a gift which one of the alumni would like to have made, as might stand in the way of a child's receiving the college education his father would like to have given him: the estate might not be large enough at death, or the necessary funds might be lacking at the time needed during the man's lifetime. In both cases, life insurance would furnish a practical plan for replacing the value that was lost.

If all the money were given to charitable institutions that people *intended* to give, their endowments would be vastly increased. A young man leaves college with a warm feeling in his heart for his Alma Mater and with the idea that "later on," when he has been able to save money, he will make a substantial contribution in return for advantages he has received—but he never saves the money. A woman feels she would like her annual contribution of \$50 to a foreign missionary school to be continued after she dies, but a gift of \$1000, to create a fund on which \$50 a year interest could be earned, would be out of the question during any one year, for it would mean giving up nearly her whole allowance for that year. A business man may be making money rapidly, and while he keeps the money invested pretty closely, his idea is to make, in the future, a substantial gift to a hospital in which he is particularly interested. He dies before he has accumulated an estate of a size which he thinks allows the setting

aside of funds for this gift, and his heirs do not feel that it is incumbent upon them to carry out the plan.

In all these cases the value of the life insurance plan to the individual is perfectly obvious. In the first place, the gift can be made through relatively small annual contributions instead of necessitating a large outlay at one time. In the second place, the fact that premiums must be paid at a certain time supplies a stimulus to saving which ordinary savings plans do not have. Life insurance premiums usually have their place on the budget while deposits which can be made when it seems convenient are usually never made. The chief advantage of the life insurance plan, of course, is that death does not cut off the possibility that the gift will be made, but, rather, makes available the funds for the gift.

Most present-day life insurance policies provide not only that the proceeds may be paid in cash but may, if the insured prefers, be paid in instalments over a given number of years, or the proceeds may be left on deposit at interest with the life insurance company, the principal sum being held intact and paid at a specified time. These so-called "settlement options" often furnish a particularly convenient method of settling insurance taken out for bequest purposes, eliminating difficulties which might otherwise confront the executors in carrying out the wishes of the persons making the gifts.

AIDS TO BEQUESTS AND ENDOWMENTS

Co-operative effort on the part of life insurance companies and trust companies, in many instances, adds to the advantages of the life insurance bequest. In certain cases the trust company, with its discretionary powers, can carry out the wishes of the person contemplating a life insurance bequest more satisfactorily than could the life

insurance company through its settlement options. The insurance may then be paid to the trust company as trustee under the terms of an agreement which provides for the distribution of the insurance proceeds according to the policyholder's wishes.

The advantages to educational and philanthropic institutions of bequests in the form of life insurance are numerous.

Much publicity was recently given to the shrinkage in the estate of H. C. Frick on account of high inheritance taxes, as a result of which various educational institutions received less than he intended they should have. The danger of shrinkage is avoided under the life insurance plan, however, for the proceeds of the insurance policy are paid in full to the institution named as beneficiary.

There is another great advantage in the fact that the bequest is paid promptly. Several years often elapse before the estate of a wealthy man can be settled and, in the meantime, funds which he intended for philanthropic purposes are not available. On the other hand, life insurance companies take considerable pride in the promptness with which claims are paid. About ninety-eight per cent of the claims of one large company are paid within twenty-four hours after proofs of death have been received.

The life insurance plan also helps to eliminate complications and possible legal difficulties. Suppose, for example, after providing for a specific charitable bequest a man leaves "all the rest, residue, and remainder" of his estate to his family. If the family are forced to liquidate valuable assets at a sacrifice to obtain the amount required for the bequest, or if the bequest takes a larger portion of the estate than the donor intended it should, it is easy to see how complications and ill feeling

between the family and the institution may result.

The idea that life insurance furnishes a practical plan for meeting individual human needs is not, at the present time, so deeply rooted as it will be in the future, and the idea that life insurance may be of inestimable value in serving the needs of institutions has, in a sense, just begun to sprout. More may be said, therefore, about the possibilities of this plan of making bequests than of actual results. It stands to reason, however, that persons may be induced to give larger amounts if the sums they are to contribute represent only the equivalent of a relatively small rate of interest paid on the fund rather than a gift of the whole amount at one time. Also, many people who can afford only small yearly contributions can accumulate gifts of one or two thousand dollars in this way and it is often easier to obtain ten \$1000 gifts from ten people than one \$10,000 gift from one person.

While the possibilities of bequest insurance have not yet begun to be realized, the records of the various companies, even now, show hundreds of policies under which educational, philanthropic and religious institutions are named as beneficiaries and many institutions have already received gifts or bequests through the channel of life insurance.

The plan of increasing the endowment funds of colleges by means of insurance is becoming increasingly popular. In most cases, the members of college classes take out relatively small twenty-year endowment policies on their lives, payable to their Alma Mater at the end of the twenty years or at their death. The total amount of these policies represents a substantial contribution. For example, Princeton University, it is said, will receive over a million dollars from the endowment

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policies now in force on the lives of their Alumni.

Recently, during a drive to increase the endowment fund of the Children's Orthopedic Hospital in Seattle, \$900,000 was subscribed through twenty-year endowment policies, and in about a year after the end of the drive the first \$1000 was paid at the death of one of the subscribers.

In 1904, a number of priests in the Catholic Diocese of Newark, New Jersey, took out endowment policies to aid in financing the building of a new cathedral. At that time the ground had not been broken for the cathedral which has since been erected. The records of one company show that of the 108 policies taken in that company, twenty-five have matured by death, each having a value of \$1300, resulting in a total of \$32,500 paid into the cathedral fund. The remaining eighty-three policies matured at the end of their respective endowment periods and an additional \$107,900 plus dividend accumulations was paid into the fund from this source.

The increasing demands upon educational and philanthropic institutions and the increased cost of administering these institutions present a serious problem to those responsible for raising the necessary funds. The president of one of this country's largest and most influential universities, in his 1926 report on the university's financial condition, said:

On the surface, this statement appears to be satisfactory, but it must be repeated that this is only appearance, since in reality these results are reached by crippling and impeding the work of the University in many ways. There is a kind of economy which apes the most extreme form of extravagance, and that happens when those who carry on the intellectual and spiritual work of the world are denied the where-

withal to make their activity in the highest degree successful and effective.

If, as H. G. Wells states, "the underdevelopment of universities and educational machinery is like some underdevelopment of the brain and nerves, which hampers the whole growth of the social body," then the contribution which life insurance can make to education, if properly understood, can readily be appreciated. Moreover if, as Mr. Wells states further, "education is the preparation of the individual for an understanding and willing co-operation in the world's affairs," then the part which life insurance is playing at the present time in enabling individuals to obtain this education has no small significance.

FUTURE POSSIBILITIES

It does not require a great stretch of the imagination to see the need for much charitable work wiped out by an intelligent use of life insurance. A prominent banker of St. Louis made this remark some time ago:

I believe if ten per cent of the amount spent by organized charities in St. Louis were used systematically for a period of ten years buying life insurance, thus aiding the poor they are now trying to relieve, the charity organizations would have much less work to do at the end of ten years, and thousands would be benefited and made happier on account of the insurance.

Needless to say, there is a long road to travel before the need for even a few philanthropic institutions will be wiped out by life insurance. This goal may never be reached. In any case, however, life insurance *can* aid in solving some of the most pressing problems which confront those responsible for the financing of philanthropic institutions and *will* aid if intelligently used and understood.

The Modern Life Underwriter

By JOHN MARSHALL HOLCOMBE, JR., LL.B.

Manager, Life Insurance Sales Research Bureau

IN the development and refinement of business activity in a young country, it is frequently observed that production problems claim attention before the allied questions of distribution are seriously considered.

Such a condition has clearly obtained in the United States, where the emphasis on production has resulted in remarkable improvement in mechanical and other operations. To a degree never before approached, we have already seen the production of goods and services steadily improved; and the field of this improvement covers as wide a scope as business itself embraces. We hear constantly, for example, that today a machine can do a volume of work which previously was done by five or ten workers—and furthermore that it can do the work better. More and better goods are the result.

The study and solution of these production problems have attracted the best inventive genius; and the resulting achievements have placed the United States in a position which she could not otherwise have occupied. In this effort to produce more and better goods, the idea necessarily grew that if goods were improved, their distribution would satisfactorily take care of itself. Many executives in all lines of business subscribed—often unconsciously—to this conclusion, and as a result their distribution policies and practices were left for secondary consideration. The president of a large corporation who said that his sales force was a great trial to him but apparently a necessary evil differed from many of his contemporaries only in his frankness.

Coming generations will undoubtedly regard the Great War as a dividing point between the customs and practices which were in use before 1914 and those which followed 1918. Such an attitude is already justly held by many men in regard to the problems of distribution. They recognize that many lines of business have spent time and money in studying these problems in the last eight years far beyond what was deemed advisable even five years before.

APPLYING SALES RESEARCH TO LIFE INSURANCE

Sales effort involves men and markets, in regard to both of which it is possible to secure vital information through what has come to be called sales research. Until very recent years, the word "research" was almost wholly connected, at least in popular conception, with laboratories, where chemical or similar experiments were carried on. Since 1918, many corporations, as well as governmental and private agencies, have applied the principles of research to many sales problems—to a study of the markets in which sales are to be made, as well as to a study of the men who are to do the selling. Territorial analysis and personnel studies are today commonly used to aid in better distribution.

In the field of life insurance, there has been a development similar to that which has just been described. The mathematicians and doctors brought life insurance to a position such that guess work in the acceptance or underwriting of risks has largely been super-

sed by facts secured through the application of scientific principles to many intricate problems. In this particular branch of life insurance activity, there has been developed through research a scientific foundation upon which the whole structure of the institution has been built.

But while that phase of the business was receiving attention, the sales or distribution end was being largely ignored so far as careful study was concerned. It was early recognized in the United States that a sales force was a necessity in the active solicitation of business. The taking of a life insurance policy is a peculiarly unselfish act, and the need of salesmen was considered necessary from the dawn of life insurance in the United States—about 1850.

The operation of the sales force has been developed through a system of local agency units, each of which is intended to be a distributing center through which the salesmen, usually called agents, are expected to operate. The managers of these local agencies are charged with the responsibility of securing agents to work for them, of training those men and of thus building a local sales force for the sale of life insurance in that community. These managers are of course responsible to their home offices, where the officers of the corporation are located and through whom the affairs of the company are in general directed.

Life insurance in the United States is now approximately seventy-five years old, and during most of that time—certainly fifty years—the operation of the sales organization was carried on with very little effort at making careful studies of the problems involved. Men were appointed as agents because they asked for the appointment. Territories were entered and offices established because some man told a

company that he could sell a good volume of business there. It was widely believed that the problems which faced the sales department of a life insurance company were not susceptible to scientific analysis. For example, although the actuaries and doctors had studied human differences and their significance for the purpose of determining what members of the public could be accepted and what members must be rejected as risks and although they had accomplished much in that direction, the problem of selecting agents to sell life insurance was virtually ignored, partly because sales managers felt that there were no known principles to guide them and partly because they felt that they must accept most of the men who were willing to be appointed as agents. In the last ten years, the attitude has markedly changed; and many companies, as well as local managers, are today regarding the problem of selecting agents as one in which many men who apply should be rejected because they possess danger signals for the future. A study of the manner in which the selection process is now functioning shows that in some local agencies, a contract is made with only about one man out of every fifteen to eighteen of those whom the local manager interviews. Some of these prospective agents do not make a contract because they do not wish to do so, but many are rejected because the company or local agency does not wish them. Much water has gone over the dam since the days of even ten years ago, when it was widely and frequently correctly believed that after a man had failed at many other things, he turned to life insurance selling, secure in the idea that any life insurance company would be only too glad to give him a contract.

The business of life insurance has not yet passed beyond the early stages of

careful study in its exceedingly intricate and numerous sales problems. But it is certainly safe to say that today the great majority of companies are keenly alive to the need for closer supervision of sales activities, accomplishing better results at decreased cost. Whereas, ten or fifteen years ago the sales or agency department was frequently without an executive officer in the home office at its head, today it is usual to find this department with a vice-president in charge of its affairs and with ample authority to operate his sales force effectively. From the executive at the head of the department to the newest agent in the field, a very great increase in the prestige surrounding the position which each man holds has been growingly apparent in the last decade.

THE APPEAL OF LIFE INSURANCE

At the same time that these developments in sales research have been taking place, the institution of life insurance has itself been expanding at a rate previously undreamed of. In the first year of the decade just being completed, that is, in 1917, there were issued new policies numbering 9,516,000 for a total amount of \$4,891,037,000 of insurance. At the end of that year, the accumulated sales of all past years had resulted in a total of 50,345,300 policies which were then "in force" for an amount of \$27,189,009,000 of insurance.

Ten years later—that is 1926—there were issued 20,913,000 policies for an amount of \$16,383,000,000 insurance, and the policies "in force" were 108,429,000, for an amount of \$79,950,000,000 of insurance.¹

No such growth has ever previously been experienced in American life in-

surance. What factors brought about? Obviously one condition of great importance was the growing prosperity of the country, but another factor of potency has been the recognition by the American public of the uses of life insurance. For example, the married man buys life insurance today for any one or more of the following purposes: to provide the necessities for his wife and family, to pay the mortgage on his home, to make possible the continuance of the grammar school, high school or college education of his children, to provide a lifelong income for the several members of his family, to provide an income for himself and family in case he becomes totally and permanently disabled.

A young unmarried man takes a policy for such purposes as to repay his parents for their expenditures on him, to start a savings fund and create an estate, to assure himself of an income in case he should become totally and permanently disabled, to protect an educational or other loan made to him.

Other purposes have appealed to wage-earning women, to women of means, to men of means, or those who wish to provide for some philanthropy, to corporations or partnerships which wish protection against the loss of some "key" man in their institution.

In short, the reason that approximately fifty per cent of our entire population have invested their funds in life insurance is because life insurance has a universality of appeal. It is uniquely useful to the day laborer and the millionaire because no other institution can do what it does.

It is safe to say that today most people believe in life insurance. But even so, the field for its use has barely been scratched, in the opinion of careful students, who point out the fact that the present amount of life insurance in force is equal to only about two and

¹ The figures for 1926 were estimated from actual reports for ten months and estimates for the last two months.

a half times the annual income of those who are insured. In other words, the average man who carries insurance at all carries only enough to provide for about two and a half years of his family's expenses.

The foregoing figures have been given for several purposes: first, to show the rapidity of the growth of the institution of life insurance; second, to show that despite this growth, the field for future expansion is so unlimited as to defy prophecy of what it may become in another decade; third, to lay the ground work for a consideration of the place of the underwriter or agent.

NEED OF INTELLIGENT SALES FORCE

It has already been indicated that American life insurance has regarded a sales force as a necessity. The attempts in England and the United States to operate without agents have shown that the growth of those companies was so limited as to make their experiment unattractive to other companies. This sales force has, of course, been instrumental in placing upon the lives of American citizens the volume of protection which now is carried by them. At the same time, it is proper to say that until very recently the sales forces of our companies were selected and trained in a manner which was not befitting the institution which they essayed to represent. It is easily within the memory of the present generation to recall signs in buildings which proclaimed—"Beggars, peddlers and life insurance agents not allowed." Small wonder that capable men shrank from entering such a classification.

The public has properly criticized the business because the business allowed men to represent it who should never have been given the privilege. Furthermore, the sales forces were sent out to discuss with the public a very technical matter—namely, how life

insurance could fit the needs of the individual insurer—and they were sent out with wholly inadequate preparation for their task. It is because of these and other allied facts that the claim has been widely made that life insurance has succeeded despite rather than because of its sales methods; that the real reason it has progressed so amazingly well is because of its inherent and unassailable soundness as a public servant.

In the last decade, the American life insurance companies have made a vigorous effort to improve the quality of the men selected to represent them. They have endeavored to educate their local managers to select their new men instead of accepting anyone who presented himself, to recognize, among other things, that experience has proved that men who enter the business between the ages of twenty-five and thirty-five have shown on the average better results than those who entered it at either younger or older ages.

In the matter of training their salesmen, the advance which the companies have made in ten years has been entirely without equal in the history of the business. In 1916 there was little which the man entering the life insurance field could use to assist him in comprehending what his duties and opportunities were except the correspondence courses which a few companies had prepared for their own men and a book on life insurance which had been written the year before by Professor S. S. Huebner of the University of Pennsylvania. At that time, many new men were still being given a rate book, a few sample policies and nothing else except an expression of hope that they would succeed. Such a process developed some sterling men, but the vast majority fell by the wayside in discouraged hundreds and even thousands. Meanwhile the public was

being interviewed by these untrained men and given many wholly erroneous ideas and unfortunate impressions. The amazing thing, as we look back over the more than half century of that kind of operation, is: first, that so many men were able to succeed as life insurance agents, and second, that the public was persuaded, during those years, in such great numbers that life insurance was a sound institution for them to patronize.

It has already been mentioned that one of the cardinal reasons for the growth of life insurance in the last decade has been the recognition of the uses to which it can be put. In effect, the underwriters of recent years have set themselves the task, not of selling a man simply a \$10,000 policy, but rather of selling him a policy whose proceeds are needed by that particular individual for some particular purpose. Such a task means that a life insurance man is given the opportunity of advising his client how to buy life insurance—what needs can be covered by a policy of one kind and what by another—what is the best way which foresight can dictate for the payment of the proceeds. A man who can successfully render that kind of service to the public is in a very different position from the man who told everybody that they "needed a \$10,000 policy." The institution of life insurance furnishes such an opportunity to every man who is ready to pay the price.

It has been aptly said that the life underwriter who prescribes for all his prospective clients the same sized policy is like a physician who would recommend to every patient the same kind and amount of pills. The significance of that statement lies in the fact that the reason the modern physician is able to differentiate between many kinds of treatment and prescribe intelligently for each indi-

vidual patient is because of the years of training and study through which he passes before he is permitted to practice. The careful observer of modern life underwriting recognizes that in the past ten years the institution of life insurance has laid the groundwork to prepare its representatives for the task which has just been described.

MODERN LIFE UNDERWRITER

Slowly but surely are appearing men who are sufficiently well versed in life insurance and the needs which it can satisfy so that they are actually building estates for their clients which will show their usefulness only with the passage of years. These men are winning the confidence of an increasing circle of men because they are doing for those men what no one else is privileged to do. It is a slow process to produce such men, but the start has been auspiciously made.

The life underwriter who calls on the public today faces a very different task from his predecessor of a quarter century ago. He finds the idea rapidly spreading that the desirability of protecting life is being recognized as fully as essential as the protection of tangible property. In short it has been for years universally regarded as advisable to carry protection against fire or against marine disaster, but it is only in very recent years that a similar attitude has become widespread in regard to the protection of life.

Yet with all these opportunities, the modern life underwriter has no "primrose path." His undertaking is one wherein he has every temptation to procrastinate and in which he must show that rare capacity of being able to be his own master. It profits him nothing that he has taken a course in life insurance selling at one of the universities or that his services are vitally needed by the public, unless he

is capable of withstanding the temptation to fritter away the hours which are given to him. Few, if any, occupations in the business world offer so many distracting influences as does selling; yet for the man who can become the master of himself, the rewards in life underwriting are many and great.

Never before have the companies on the American continent been so alive to the opportunity for better results in their distribution function; never before has the underwriter been so well prepared for his tasks; never before has the public understood life insurance as they do now; never before has a great university made its course in life insurance a requirement for graduation. It is in such an environment that the modern life underwriter is working.

The companies have shown certain marked tendencies recently: first, they are scrutinizing with increasing care the additions to their sales force; second, those who are retained are succeeding to a far greater extent than ever before; third, they are being selected with a genuine effort at a decision as to their acceptability; fourth, the training which is available is many times what it was even five years ago; fifth, intelligent supervision is rapidly taking the place of unguided and frequently misguided effort.

FUTURE PROSPECTS

These tendencies appear likely to accomplish certain results in the future: first, the institution of life insurance will be comprehended increasingly well by the insuring public because the men who carry the message to them, namely, the agents, will be increasingly capable of doing it; second, a constantly and rapidly improving group of men will be attracted to become underwriters both because of the appeal which the rendering of this type of service gives and also because of the financial reward; third, the attitude of institutions of learning will change as a result of these two factors so that training for the career of life underwriting will be available in an increasing number of institutions.

It seems no more than a reasonable expectation to say that the conditions surrounding life underwriting in 1927 give indications of the position which it will hold in the immediate future—from the point of view of the educator, of the public which is to be served, and of the life insurance companies themselves. Yet these indications can do no more than present the merest outline of the opportunity for striking improvement in distribution, principles and methods which life insurance offers. The reward for creative work in that field awaits the men who enter it with enthusiasm, ambition and brains.

Non-Medical Life Insurance

By HAROLD F. LARKIN, A.A.S.

Vice-President, The Connecticut Mutual Life Insurance Company

A MEDICAL examination by a physician has customarily long been required of the applicant for a policy of life insurance as one of the important tests of his eligibility for the insurance. In fact, several states have in the past enacted legislation making a medical examination a condition precedent to the issue of insurance. The purpose of such statutes has undoubtedly been to protect the whole body of policyholders against the intrusion of unsound lives through careless methods of selection, and this requirement probably originated out of an effort to thwart the attempts of certain unscrupulous parties to profit by insuring so-called "graveyard" risks—a practice prevalent to some extent several decades ago. Even though the medical examination was thus firmly established in law and in practice, yet a modern development of the life insurance business has been to dispense with this test and safeguard, and to issue policies for moderate amounts without obtaining any medical examination, under the so-called non-medical plan.

The non-medical plan, introduced to American underwriting circles about six years ago, has found its development along two distinct lines. First, the acceptance of applicants for small amounts of insurance within certain age limits without any previous medical examination. Second, the acceptance of applications for additional insurance on lives previously medically examined and found insurable within one or two years prior. Under either method a medical examination may be called for

if the conditions in the individual case render one apparently advisable.

The second method, initiated by certain American companies, can hardly be considered as strictly non-medical insurance since the insuring company relies to a large extent upon its previous medical findings, merely endeavoring to determine through the applicant's statements and other evidence whether there has been any known change in his condition of health in the interval. Some of the companies employing this plan have made it available only for a limited period, possibly one month, each year, and apparently have adopted it as a sales feature intended to increase their new business production among old policyholders. Since it lacks the essential features of the true non-medical plan, we shall henceforth consider the first method only.

GRADUAL ADOPTION IN AMERICA

Certain Canadian companies were the pioneers on this continent in the adoption in 1921 of the true non-medical plan, although the industrial companies in the United States and Canada had been accepting insurance for small amounts (up to \$500) without any medical examination, and abroad the plan had been well established in Great Britain for many years. The Canadian companies were influenced in part to adopt the plan because of the difficulty experienced in securing medical examinations in many parts of their territory owing to the lack of physicians, especially during the war period, which had resulted in holding up much new business. The rapid spread of the

plan to embrace practically all of the Canadian companies was a development closely watched by American companies. About two years ago several of them adopted the plan and at the present time over fifty of the American companies now offer it.

The non-medical plan represents an attempt to select physically sound, healthy risks for life insurance without incurring for the applicant and the agent the trouble and possible delay and inconvenience, to say nothing of the expense to the company, involved in securing the usual medical examination. The non-medical plan does not mean any intentional lowering of the standards of eligibility or any desire to insure unhealthy lives or impaired risks at standard rates. It is aimed to select the business just as carefully as under the system of medical examinations but the selection is conducted along somewhat different lines.

In the selection of risks for life insurance there are ten factors to be considered in determining the insurability of an applicant, as follows, without attempting to name them in the order of their importance:

- (1) Age
- (2) Build
- (3) Occupation
- (4) Habitat or residence
- (5) Amount and plan of insurance
- (6) Habits
- (7) Moral hazard or insurable interest
- (8) Personal history
- (9) Family history
- (10) Physical condition

Information on these several factors may be obtained through different sources. Where the services of a doctor are secured to make a physical examination it has been customary at the same time to elicit through him facts on many of these various points, although such facts may be ascertained

in other ways. The skill, expert knowledge and training of the physician are really required only to seek information on the last of these factors; viz., physical condition; although his training and experience particularly well qualify him to secure information on the last three. On others, properly drafted inquiries, explicit and clearly understandable, will elicit directly from the applicant himself much of the information that is vital. Personal and family history may thus be covered. Naturally, it is incumbent upon a company to see to it that the information sought from the applicant is thoroughly explained to him and clearly understood.

Therefore, the privilege of submitting applications on the non-medical basis is usually extended only to agents of experience and thorough training in soliciting life insurance, for under this plan the agent assumes certain of the functions of the medical examiner. Such an important trust reposed in the soliciting agent calls for careful selection of those granted the privilege and accordingly various tests of eligibility are established by the different companies, all designed to qualify only responsible agents who will safeguard the interests of their companies. Reliable agents recognize the added responsibilities and obligations imposed on them under this plan and have been found to respond satisfactorily to its demands. That conservative companies do feel justified in entrusting this privilege to agents is a clear indication of their confidence in the excellent character and calibre of their field organizations—a confidence which experience is demonstrating has not been misplaced—and true it is that in recent years the better companies have attracted to their agency ranks a well-educated, intelligent type of men and women of high moral and ethical

standards. Conscientious agents of this type exercise care in selecting and recommending applicants for non-medical insurance and take pride in creating and maintaining a creditable record with their companies in this respect. They appreciate the advantages and benefits to them afforded by the non-medical system and recognize that careless work on their part may prove serious in its results to the company and even jeopardize their retaining the privilege of submitting business on the non-medical basis.

In selecting risks, companies wish to know that the applicant is financially sound, morally sound, physically sound and that there exist sound reasons for insuring his life. As for his being physically sound, what companies are really interested in knowing is that the applicant is in good health, able to work, has not been compelled to give up work on account of his health, has had no occasion to consult a physician because of any ailment, and knows of no existing impairment. This information the non-medical plan seeks to obtain with less effort and expenditure of time and money by making direct inquiry of the applicant without the requirement of a physical examination.

The application form employed is a searching questionnaire inquiring as to any illness, medical attention, operations, association with consumptives, any physical deformity or mental disorder, absence from work or change of residence or travel on account of health, etc., that the applicant may have experienced, so that the company obtains a fairly comprehensive survey of the applicant's past medical history and thus can determine its bearing on his insurability.

Supplementing these statements by the applicant, it is customary to require the soliciting agent to give his personal recommendation to the acceptance of

the risk after indicating what acquaintance the agent has with the applicant and what knowledge he has of the applicant's personal history, physical condition, character, reputation and financial standing, or what investigation he has made of them. Then, in addition, the usual practice is for the company to secure a confidential detailed inspection report dealing with these aspects of the risk, quietly obtained without approaching agent or applicant, through competent unprejudiced independent informants in a position to supply the facts.

Supplied with the information furnished by the applicant's statements, the agent's recommendation, the independent inspection report, and such other information as may be known to it, the company can act on the case. A prompt disposition of a very large proportion of the applications is possible, while relatively few may be held for a full medical examination or other investigation before final action is taken. Any indication of possible physical impairment or weakness is sufficient justification for requiring a complete examination, and usually the examining physician is advised of the particular conditions existing which have necessitated the examination, so that he may pay especial attention to them in his examination. In adopting the non-medical plan companies are not seeking to eliminate the medical examiner. He has been too important a factor in the present-day development of life underwriting and in the establishment of the sound methods of selection now existing, to be eliminated. In fact, the medical examiner is indispensable to life insurance. He is the important factor in the granting of insurance to under-average or substandard lives,—a phase of the business which has already made much progress and is destined to still greater advances. The

development of the non-medical plan represents no attempt to minimize the examiner's importance or to limit his functions.

On approved non-medical cases the general provisions of the policy contract issued are identical with those found in policies granted to medically examined lives. The clause relating to incontestability is unchanged. The same benefits relating to total and permanent disability and for double indemnity in case of accidental death are generally granted. One distinction exists in that, as a rule, term insurance is not issued non-medically, the usual requirement being that only Life or Endowment forms of policies will be granted to non-medical applicants.

Why should companies dispense with medical examinations? What factors have led to the adoption of the non-medical plan?

The trouble in securing examiners largely influenced the Canadian companies. American companies also find that in rural fields, especially, agents experience difficulty in arranging examinations promptly. Doctors, particularly younger men graduating in recent years, prefer to settle in sizeable towns where hospital facilities are available to them, where contact with fellow physicians is possible and where opportunities for specialized work in their profession are greater. In rural communities the lack of readily available doctors presents a real obstacle to be met by the agent canvassing for rural business, for it is often a real task to bring prospect and examiner together.

The material saving in time and worry to the agent is an important factor. The agent is relieved of the task of arranging for the prospect and examiner to meet and may complete the entire application at once when soliciting the prospect without the

delay incident to securing an examination. It thus removes the opportunity for the prospect meanwhile to have a change of heart over the transaction and so results in more completed sales for the agent. Moreover, with the saving in his time thus effected on some of his cases properly utilized in soliciting other business, the agent will increase his production.

The non-medical plan results in distributing more widely the benefits of insurance protection and in encouraging and extending the thrift idea for which life insurance stands. More insurance may be placed through this plan and new lives protected that could not be reached before. Especially are many young lives introduced who become excellent prospects to build on for future business.

To the public, life insurance brings up the thought of a medical examination, which to some is, without any sound reason, a bug-a-boo. Though perfectly healthy, they have a hesitancy about submitting to an examination, and especially are many women prospects reluctant to undergo a physical examination.

The competitive aspect of the business has contributed to the expansion of the plan. After one or two companies have introduced the plan, others adopt it in order to offer the same facilities by equipping their sales forces with similar tools and affording them equal opportunities in the quest for business.

What results will follow if the medical examination is eliminated? Will not many impaired risks obtain insurance? Will not fraud be exercised? Is it not letting down the bars and paving the way for deception, poor risks and subsequent adverse mortality experience? That is a natural reaction of many life insurance men when they first learn of the proposition, accustomed, as they are, to view the medical

examination as absolutely essential in the selection of risks.

What protection has a company if no medical examination is required? Mankind as a whole is honest and truthful. The applicant, unselfish enough to make the sacrifice involved in maintaining a small policy for his family, will rarely be of the type that would deliberately misrepresent the facts, for, as a matter of fact, the benefits he may gain by a falsehood are insufficient to be any real inducement. Where the maximum limit of insurance issued without an examination is small, the question of misrepresentation is largely eliminated.

A further safeguard lies in the fact that insurance is sold and not bought. While, theoretically, impaired lives might apply for and possibly obtain life insurance under the non-medical plan; yet, practically, the general public is not sufficiently interested to take the initiative to any extent. Seldom do applicants voluntarily seek life insurance. On the contrary, they must be induced to apply through the efforts of an active agency force. An individual who does take the initiative and seeks insurance on the non-medical basis will naturally be carefully scrutinized, as will one who has applied to several companies for non-medical insurance.

A well-educated and thoroughly trained field force is a protection to a company. Such men rarely offer the non-medical feature as an inducement to insure, realizing that to do so will restrict certain sales to the non-medical limit where an application for a larger amount could have been as readily obtained. It rests with the agent to select his prospects with care and then to exercise the utmost care in obtaining the applicant's replies. Agents should impress the applicant with the fact that the company is willing to dispense

with the usual insurance requirement of a medical examination because of its confidence that the applicant will give it the facts. It has been found that by properly presenting the situation to the applicant, he is more accurate in answering the agent on non-medical business than in answering the doctor who examines him. Agents recognize that evidences of carelessness, inadequate investigation, failure to safeguard their company's interests, lack of recognition of their duty and obligation to their company may be noted and recorded at the home office and that a repetition of such offenses will result in withdrawal of the non-medical privilege from the offender or the termination of his agency connection.

Without a medical examination certain existing impairments of heart, lungs or kidneys may escape attention, if the applicant is ignorant of them, but this situation the companies have anticipated and feel can safely be handled. For the most part impairments of this nature will have manifested themselves at some time and will thus be known to the applicant, but if not, by the restriction of the age limit customarily to age forty-five, companies protect themselves since such hidden weaknesses develop only infrequently among younger persons. Over sixty-three per cent of one company's non-medical applicants were under age thirty. Even on medically examined business, underwriters know that the best examiners sometimes fail to detect an impairment of lungs or heart. Occasionally a risk somewhat physically impaired may be insured on the non-medical basis, but offsetting any increased mortality loss thus incurred is the saving in medical examiners' fees eliminated under the plan.

Some objectors to the non-medical plan have argued that it would result in many contested death-claims. In

the experience of the Canadian companies covering a number of years that has not proven to be true and in fact the dire results prophesied for the plan by some at the outset have failed to ensue.

The actual mortality experienced by the Canadian companies on their non-medical business has proven satisfactory, for in fact the non-medical business has shown up quite as favorably as the experience on the medically examined business. Such brief experience as some of our American companies have had is likewise considered satisfactory.

That this new departure in underwriting procedure is a generally accepted development of the business is indicated by the rapidity with which it has been adopted by so many of our companies and the number endorsing it is constantly on the increase. Several of our states, responsive to changed conditions, have modified or repealed their statutory restrictions on the issue of insurance without a medical examination. The trend appears to point toward a wider exten-

sion of the plan as time goes on. While the non-medical plan may be considered as a strictly modern development, yet actually insurance without medical examination is not a new proposition. In the early days of insurance in this country, the medical examination of today was an unknown quantity. Stethoscopic examination of chest, chemical analysis of the urine and blood pressure readings, now deemed by many as of utmost importance in determining the insurability of an applicant, were not a requirement in those days. And yet millions of dollars of insurance were successfully written without the aid of the numerous medical requirements of today. Today many competent authorities are convinced that with intelligence and under proper precautions and reasonable safeguards it is entirely feasible, within certain limitations as to age and amount, to dispense with the medical examination in the case of many applicants with resultant advantages to the applicant, the agent and the company.

Salary Savings Insurance¹

By RICHARD L. PLACE

Aetna Life Insurance Company

DURING the World War the United States Government devised and effected a unique plan of life insurance. This plan, known as "War Risk Insurance," afforded protection to the military and naval forces in amounts up to \$10,000 on a term insurance basis. The administration of the plan centered on one essential feature: the deduction of the premiums monthly from the pay of the men insured. By means of this a tremendous volume of life insurance was placed in force and maintained. Probably in no other way could such a vast program have been installed and handled effectively. It was the first outstanding example of the idea which later was to be applied by life insurance companies in designing the Salary Savings plan.

Some of these companies had already had several years' experience in selling and administering Group Insurance on a contributory basis, whereby a portion of the premiums are deducted from the pay-envelopes of the employees. In one sense, therefore, the origin of Salary Savings may be traceable to an effort on the part of these companies to supplement the Group coverage with a plan which would offer the various forms of individual policy-contracts to employes on a similarly convenient monthly pay-roll deduction basis. On the whole, however, it was merely a logical development aimed at mass-selling, an effort to reach more readily, more comprehensively, and more economically the great mass of salaried

workers and wage-earners who constitute, in large measure, the life insurance buying public.

Salary Savings Insurance came popularly into vogue at about the beginning of 1925, although at least one of the large companies had experimented with it for some time previous to that and had, in fact, already installed the plan on its own home office employes. We find numerous instances in the past where employers made arrangements to facilitate their employes obtaining more adequate life insurance protection, and many of these were not unlike the present Salary Savings plan in principle.² Our consideration of the subject will not attempt to deal with these pioneer phases, however, but will describe the plan and its development only from the date when it really assumed an identity and was offered, on a well-defined basis, by many of the leading life insurance companies.

FEATURES OF SALARY SAVINGS PLAN

Technically speaking, there are no new features embodied in the plan. The same policy-contracts are offered and the same premium rates are used as on an individual basis. The chief difference is that the Salary Savings plan is usually arranged on a monthly basis, whereas most individual insurance is paid for annually. Some companies accept a lower minimum premium under the Salary Savings plan, in

² John Wanamaker, for example, believed so firmly in encouraging his employes to obtain life insurance that at one time he presented each individual in his employ with a \$1000 ordinary life policy, on which he had paid the first annual premium.

¹ Otherwise known as "Salary Allotment," "Salary Budget," "Salary Deduction," or "Pay-Roll Deduction" Insurance.

order to extend its benefits to greater numbers, although there seems to be some doubt as to whether this is actually justified when considered from the standpoint of the expense of acquiring and administering the business. We shall mention this point later in more detail.

It so happened that "non-medical" insurance was inaugurated by many companies at about the same time the Salary Savings plan was brought forth. For a while, some companies offered the non-medical feature only in conjunction with Salary Savings. There is a wide divergence in the rules of the various companies in this respect. The majority offer the non-medical feature only on amounts of insurance of less than \$5000. A few of the larger companies will accept up to \$10,000, under certain conditions, provided the risk is approved at the home office. All companies necessarily reserve the right to request a complete medical examination in any case where there appears to be a reasonable doubt as to the applicant's insurability as a standard risk.

The non-medical feature no longer remains peculiar to the Salary Savings plan, however, and cannot be classed as an advantage pertaining to it alone. Practically all the companies writing non-medical insurance extend this feature similarly to individuals. We may say, therefore, that Salary Savings is nothing more nor less than life insurance in all its commonly known forms, and that the plan differs only in the method by which the premiums are collected.

This method of collecting the premiums by deducting them monthly from the pay-envelopes of the insured employes is, obviously, the essence of the plan. It is, in fact, so entirely the plan that one might be inclined to dismiss Salary Savings as being merely a soliciting scheme, aimed at having the

employer act as a premium-collecting agency, were it not for some good reasons which can be advanced as to why the plan is capable of serving a very worthwhile purpose in industrial relationships. Let us review these briefly so that we may glimpse the more important aspects of Salary Savings Insurance and appreciate, to some extent, the purpose that the companies are endeavoring to accomplish with it.

WHY PLAN IS NEEDED

It is an undoubted fact that the great majority of wage-earners in this country are inadequately insured. This is indicated in a report of the Committee of the National Association of Manufacturers presented at their annual meeting, which contained the following:

Approximately thirty per cent of American employes are not insured. Apart from the thirty per cent carrying no protection, there is conservatively estimated as many more who have less than \$500 of insurance available at time of death, and the average of the remainder does not exceed \$1000.

One of the reasons for this condition is that it has been very difficult for the companies to adequately reach this great class of potential prospects through the ordinary methods of solicitation. Most employers do not feel justified in allowing insurance salesmen to interview their employes during working hours, and the salesmen, on the other hand, cannot be expected to devote any considerable overtime to interviewing employes at their homes with the prospect of writing moderate-sized policies. The result is that the average employe does not have the opportunity to obtain the best life insurance advice.

Another and no less important reason is that employes do not have the opportunity to buy insurance on a convenient and economical basis. As

previously stated, most individual policies are sold with premiums payable annually. This leads the employe to believe that he cannot afford the cost of an adequate amount of ordinary life insurance. A premium of \$25 appears large to the man receiving a moderate wage, and many employes who enjoy a comfortable salary are unable to pay down \$100 in a lump sum. The instalment payment methods used in merchandising other commodities are, no doubt, accountable in large measure for the evident fact that many workers nowadays are continually living up to the limit of their incomes from month to month, laying aside little or nothing in the form of a savings surplus. This thought was clearly expressed in a letter which appeared recently on the editorial page of the *New York Times*. The writer, in commenting on the instalment plan, stressed the need for diverting it to proper and productive channels as follows:—

Critics of the instalment plan seem to overlook the fact that the fault does not lie in the plan, but rather in the direction it has taken. There is no question that a great deal too much instalment buying has been diverted from savings accounts, life insurance and investments toward the purchase of non-essentials. The instalment plan is here to stay, and it is as well to recognize the fact and see what can be done under the circumstances. Probably the oldest form of instalment buying and still the best is life insurance, though very little of it as yet is on a monthly basis. Some investment brokers are selling bonds and stocks on instalments, but they have not very generally advertised the fact. Bankers have apparently done nothing to develop savings accounts by some scheme of regular monthly deposits of uniform amounts. There has been no general increase in the rate paid for savings in forty years at least, and an increase of one-half to one per cent yearly in special cases would not greatly increase the average rate

paid, while it could be used as a great inducement to systematic savers.

Concerted action by the insurance companies, investment brokers and bankers will save the situation, not by trying to stop or discourage a habit, but by diverting it to proper and productive channels.

This, literally, is the chief purpose of the Salary Savings plan. It endeavors to make it possible for a greater number of employes to buy life insurance, and thus practise thrift, by providing a means for them to set aside a nominal portion of their earnings each month, through the pay-roll deduction method, and save this money in the same way that they would meet their rent, electric light bill, and other fixed expenses. It is an effort toward making it just as convenient for them to save their money as it is for them to spend it, and it emphasizes the necessity for systematic thrift over a comparatively long period of time.

Obviously, the employer's co-operation must be secured if such a plan is to be applied successfully. The solicitation of the employes, advising them of the benefits to be obtained, and the administration of the plan, including the deduction of the premiums, depend entirely upon the employer's lending his whole-hearted assistance to the insurance company's representatives. This is logical, however, for if the plan can be shown to present advantages to the employes, with the view to bettering their condition, it will naturally concern the employer. If, too, it can be demonstrated that the successful operation of the plan will react to the benefit of the employer himself, then there is all the more justification for his adopting it and undertaking some slight expense in administering it.

Without attempting to go into a detailed explanation of all the sales-points which may be advanced in presenting

the Salary Savings plan to an employer, let us outline briefly three factors which indicate a need among employers in general for a plan of this sort.

THE EMPLOYER'S PROBLEM

First of all, employers are faced with the problem of what to do when faithful employees, who have served them for years, outlive their economic usefulness. There undoubtedly exists a moral obligation to take care of such employees in some way, and yet employers are at a loss as to how to do so. The expense must be taken into consideration, and they may not feel that they can afford to retire the employees on reduced pay. Comparatively few employers have made provision for any sort of an adequate pension plan, and many of those in operation are on an unsound financial basis. The gravity of the situation is evidenced by the fact that legislation has been proposed in the state of New York to put pension systems under the insurance department and thus guarantee a sounder actuarial basis for them.

Secondly, employers are coming more and more to realize the importance of encouraging thrift among their employees. Numerous thrift plans of various descriptions have been inaugurated by employers during recent years. It appears to be generally accepted that if an employee can be induced to save regularly, his value and efficiency will be largely enhanced.

Lastly, there is the need for more adequate life insurance protection already mentioned—the problem of making some provision in event of the sickness, total disability, or death of an employee. The extent of this problem can be appreciated by studying the figures quoted, and by realizing the effect which this lack of protection must have on the mental attitudes of the uninsured workers. Worry, we know,

contributes largely to inefficiency and unrest, and a sense of insecurity breeds fear and apprehension. How much will be gained by employers in relieving this situation is, of course, purely a matter of estimate. At least, however, they will be discharging a moral obligation, in taking steps to provide more adequate life insurance protection, and it is logical to suppose that in doing so a profitable investment in the confidence and good-will of their employees will result.

SOUND BUSINESS LOGIC

The Salary Savings plan is equipped to assist employers in their solution of these three problems. In extending its benefits to their employees they can make it possible for a greater number of them to obtain life insurance protection, they can encourage thrift on a convenient and systematic basis, and they can, through certain types of policies, provide guaranteed incomes which would be payable at the retirement age. For example, life insurance contracts known as "Insurance with Life Income at Sixty-five," "Pension Insurance," or "Endowment at Sixty-five" combine all three features and offer an opportunity for the employee to anticipate all contingencies by means of a simple, well-defined savings program.

If Salary Savings is here to stay, and if a wide development of the plan is to be anticipated, the employer's participation in the arrangement must be justified. He cannot be expected to adopt the plan, submitting to the expense of the employees being solicited and the premiums being deducted, unless he has reasonable assurance that it will operate to the advantage and benefit of his organization as a whole. Hence, we must assume that the reasoning in the foregoing paragraphs is true if we are to be in sympathy with

the principle of Salary Savings, and if we are to believe that it is a matter of sound business logic for the employer to co-operate fully in installing and administering the plan. Fortunately, experience bears this out.

FAULTY SELLING METHODS

Mistakes have been made and difficulties have been encountered in the short space of time to date in which the companies have experimented with the plan. This is not unusual, however, for any new plan of insurance develops gradually and is subject to many refinements and developments before it approaches standardization. Often, and this has been no doubt true in the case of Salary Savings, the progress of the plan is retarded due to its being misunderstood, or not clearly grasped, by the salesmen whose province it is to explain it to employers and employees. Then, too, there is a tendency for the salesman to follow the lines of least resistance, which results in a failure to secure the proper co-operation from the employer.

Many of the criticisms of Salary Savings could better be directed at the faulty methods which many agents have used in selling the plan. For example, it has been a common practice to place it on a pure "solicitation" basis, side-stepping the real task of obtaining the employer's interest and backing, and seeking only his *permission* to interview the employees. Obviously, a procedure such as this serves only to rob the plan of its identity, and cannot be productive of good results. Unfortunately, however, the education of field representatives is a slow process, and many of them will probably continue to use such methods until they learn from sad experience that they are hindering, rather than helping, the advancement of the Salary Savings idea.

Also, some representatives have failed to follow the correct procedure in soliciting the employees. For example, the average group of employees may be divided into three general classifications: (1) executives and department heads, (2) foremen, clerical, and skilled employees, and (3) unskilled employees. The Salary Savings plan is properly applicable to the first two classifications. Experience indicates that it cannot be extended successfully to the third, or lower, classification.

One reason is that employees of this class are generally on a very moderate wage-scale and cannot afford to invest substantially. They have been educated along "industrial" insurance lines, and are accustomed to paying for their insurance in small weekly deposits. This, together with the fact that their employment is of a transient nature, makes it very difficult for their insurance to be handled effectively under the Salary Savings plan. It is much more advisable for this type of employee to continue purchasing his insurance on the industrial plan, and Salary Savings does not seek to compete for this class of business. Not only is the cost of administering a large number of small monthly premiums prohibitive, but there is the additional factor that a large per cent of the policies on these employees lapse when the employees terminate their employment. Only a company writing industrial insurance is in a position to follow through effectively and collect the premiums direct from the individuals.

It can be seen, therefore, that agents who have solicited Salary Savings on this basis have made a grave mistake. As a result of having concentrated their efforts on the rank and file of employees, they have secured a comparatively large number of small policies, involving minimum monthly premiums, which have been undesirable

from the standpoint of permanence and administration expense.

The greatest need for Salary Savings exists among employees in the middle classification. Those in the first classification, the high-salaried executives and department heads, can conveniently arrange to invest their money and purchase their insurance on an annual basis. They have the opportunity to obtain expert life insurance advice, for they are actively solicited in the ordinary course of events. The skilled or clerical employee, however, welcomes the opportunity to save and pay for his life insurance on a basis more in keeping with his income, and there is no doubt that the Salary Savings plan brings these benefits more closely within his reach. The fact, too, that this type of employee is more responsible and more permanent in his employment makes it possible for his insurance to be handled efficiently and conveniently under the Salary Savings plan. Many executives, also, are found to be interested in availing themselves of the monthly premium-deduction facility. It is not always the man on a medium-sized salary who has difficulty in saving regularly.

TREND OF SALARY SAVINGS PLAN

In conclusion, therefore, we find that Salary Savings is designed to offer a convenient, accessible method for employees to save through the medium of life insurance. The operation of the plan can be considered to have a distinct bearing on industrial relationships, insofar as it assists employers in solving the problem of making more adequate provision for their employees, both as regards protection, thrift and pensions. Due to the transient nature of their employment, coupled with the factor of low wages, the plan cannot be as effectively applied to the unskilled class of employees. It is intended

largely for the higher-grade, better paid, and more permanently employed classifications.

This, to our mind, is the trend of the Salary Savings plan. We look to developments aimed at the employer's participating in the arrangement more actively than heretofore. We anticipate the establishing of the plan on a much firmer foundation, embodying the provisions of a contributory pension plan on a legal-reserve life insurance basis. Several cases have already been written along these lines and the tendency points in this direction.

Many employers are spending large sums of money on thrift plans, pension plans, and other schemes intended to encourage their employees to save and provide for the future. It is, therefore, logical to suppose that the Salary Savings plan, which combines these features, together with life insurance, thus affording a complete savings and protection program, should be deserving of an equally substantial investment on the part of employers. Particularly, as it is undoubtedly true that the employer benefits in direct ratio to the extent of his participation in the operation of the plan.

The future of this development rests largely in the hands of the life insurance companies. They are faced with a splendid opportunity to extend their services in helping to solve the pension problem in industry and at the same time to assist in the encouragement of systematic thrift. It is reasonable to suppose that they will embrace this opportunity, improving and refining the Salary Savings plan and adapting it to meet the need that undoubtedly exists, and is becoming more agitated every day, for a plan of contributory pension insurance. It remains only for them to hasten the perfection of such a plan, and to so educate their field representatives that its benefits may be clearly

presented to the employers of this country. In short, the task of "selling" the idea must rest on their shoulders, as in the early days of employer's liability insurance.

With the growth of the contributory pension plan we can expect to see the employer sharing substantially in the cost of the insurance. This contribution will probably be graded in accordance with the salary and term of service of the employee. Only those employees who have been employed for a certain minimum length of time will be eligible to participate in the plan. Medical examinations may be waived entirely, providing a sufficiently large percentage of the employees subscribe to it. It may even develop that an employee will be able to transfer his "pension bond" from one employer to another as he changes his employment, the second employer assuming the contributions to it where the first left off.

We are optimistic as to the future of

Salary Savings for these reasons: (1) we believe the plan is fundamentally correct in principle; (2) there is a great need for more adequate life insurance protection, particularly among the class of employees who are not actively solicited; (3) there is a need for making it more convenient for this class of employees to save systematically; and (4) we foresee the development of Salary Savings to meet the demand for a financially sound, permanent, contributory pension plan in industry.

The tremendous significance of this development, and its wholesome effect on our industrial and social system, can only be imagined. Surely, it is an objective worth working for, and those who are in the life insurance business should look forward with keen anticipation to the day when, through the Salary Savings plan, the gospel of thrift and protection may be impressed with even greater force and effect upon the great mass of American employees.

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Inspection Reports on Persons as a Factor in Life Insurance

By J. ANDERSON FITZGERALD, PH. D.

Dean, School of Business Administration, University of Texas

INSPECTION of persons is a means of getting confidential information from the community in which a person lives as to his desirability or undesirability as a risk in insurance. When insurance companies realized that the old system of requiring a report from the friend of the applicant was biased and often erroneous information, they adopted the method of getting confidential information from sources selected by the insurance companies. Insurers inaugurated inspection departments and the work was done secretly. The agent did not know of it; the medical examiner did not know of it; and of course the applicant did not know about it. Today the fact of inspection is known. The information and the sources of information are kept in strict confidence, the sources of information being known only to the inspector. Inspection is recognized as an invaluable aid in the selection and classification of risks.

NECESSITY FOR SELECTION OF RISKS

Some people argue that everybody and everything should be insurable at a price. Now and then somebody attacks life insurance as now conducted because those who need it most, due to defects, cannot buy it. They overlook the point that no price that is possible is high enough for bad risks. The price charged for the poorest risks should in fairness be high enough to pay a total loss plus the expense of getting the business and settling the loss. This would require a rate of over 100

per cent. Just as there are a few men who are certain to burn their property if they get fire insurance, and ships which face certain destruction if they put to sea, there are persons who as far as human knowledge goes, are certain to die within a few months, persons whose past habits have shortened their expectancy of life, and persons whose present mode of living is inviting early death. Some people live in such circumstances that temptation to defraud may prove irresistible, and others set out upon a plan to defraud. In all such cases an insurer faces a total loss in return for a small premium. In every way possible at reasonable cost the pertinent facts about those who offer themselves for insurance must be ascertained. Nowadays in nearly all cases the applicant for insurance is unknown to the insurer. The latter may be in Newark, New Jersey, the former in Pasadena; yet the insurance company must find out and eliminate impaired lives and risks of pronounced moral hazard. What is the machinery for doing this?

MEANS OF SELECTING RISKS

In the first place an insurance company relies on its agents. They are given instructions as to the kinds of risks wanted. They may be told, for example, not to solicit people engaged in certain occupations, not to solicit people who belong to certain races (numerous American companies, probably the most of them, do not solicit the business of negroes), not to solicit women except according to certain

restrictions, not to solicit persons with mental and bodily impairments, not to solicit persons who fail to maintain a specified standard of health and habits, and so on. The agent knows personally many of those whom he writes. He can find out most of the necessary information about any applicant. He can make as complete a certificate as his company requires. There are agents who will not knowingly offer their companies poor risks, who pride themselves on the small number of rejections they have, just as a judge boasts of few reversals. Companies may be proud of the attitude of their agents, but unfortunately some agents will try to get any kind of a risk insured. The agent may feel that it is his business to get the applications and somebody else's business to sift out the undesirable risks. However good the agent may be as a factor in selection, his work needs to be checked and supervised.

In the second place an insurer relies upon what the applicant says about himself. In addition to points pertaining to the kind of contract desired, the applicant answers questions as to his age, sex, occupation, amount of insurance already carried, and any previous times he has been refused insurance. The applicant is also called upon as a part of his application to make a series of declarations to the medical examiner. These statements concern age, sex, marital condition, race, residence, height, weight, occupation, health, habits and family history. Such an application becomes a part of the contract if the insurance is issued. Subject to the incontestability clause, legislation, and court decisions that statements of the insured must be material and may be considered as representations rather than warranties, misstatements may render the policy void.

In the third place the company relies upon the medical examination made by examiners who have been appointed by the company. The company seeks a pen picture of how the applicant appears to a trained medical man at the time of application. It is a universal requirement that no one other than the doctor and the applicant be present at such examination. Besides the medical questions, the doctor himself may be asked to answer such questions as:

What knowledge have you of the habits, past and present, and general standing of the insured? Have you any reason to suspect unacknowledged over-indulgence in or free use of stimulants, or the use of narcotics, now, or in the past? Can you discover anything unfavorable in his manner of living, physical condition, personal or family history, not already mentioned? State anything discovered by you which may influence the character of the risk and which is not set forth fully above.

In the fourth place the company obtains an inspection report. This report is made by an investigator who gets in touch with informants to supplement and corroborate any knowledge he may already have.

HOW INSPECTION IS MADE

Inspection as an aid in the insurance of persons is said to have originated when a large eastern company sent out an investigator to check the accuracy and validity of a death claim. Later a department was organized to do this work. Today a number of the larger companies have their own inspection departments. Many companies have a few inspectors to do work on special cases. Most companies enter into a contract with an independent company or help support a bureau which makes a specialty of making inspection reports. An inspection company or an inspection department has chief in-

spectors, with staff and correspondents all over the territory covered. The requests for reports may be made by the companies. It saves time, as is customary in cities, for the agent who sells the insurance to mail a request for the inspection report direct to the local office or representative of the inspection bureau or company. The inspection is immediately made, but the report in every case is made only to the home office of the insurance company. Each request for a report is assigned to an investigator. Sufficient detail as to who the applicant is, his age, what he does, and exactly where he lives and works, must be given to make it certain that the right person will be reported on. This prevents a healthy person from being examined by the medical examiner as a fraudulent substitute for the real applicant who is not insurable. The investigator looks for information concerning habits, character, environment, social condition, occupation, and home and business life; these being recognized as important factors affecting how long a person lives. It is his task to find out who can best give the information desired. He must get it from several sources so as to have a corroboration of the facts obtained. He may talk with the employer or a business associate of the applicant; he may talk with an acquaintance or neighbor. Some reports are easy to obtain; some require great diligence and tact.

Inspection may and usually does slow down the work of issuing policies. At its best inspection requires mail time plus one or two days. Companies may go ahead and issue small policies without inspection. To save time they follow the practice of sending other policies ready for delivery to their agencies with instructions that they be held until the receipt of a telegraphic release which is sent after the inspec-

tion is learned to have been favorable.

THE CHARACTER OF THE INSPECTION

The report blank is in the form of a questionnaire. An examination of many blanks shows that usually thirty or more questions are asked.

1. The first group have to do with *the identity of the subject*, his age, and how long the informant has known him. They are like these:

How long have you personally known the applicant? Or, about how long have your informants known him? How long since you or your informants have seen him or heard directly of him? (If not within two weeks, explain fully.) Is the above age about correct? (If not, try to learn the correct age.)

These questions are not only a check as to whether the right man was examined and reported on; they also have a bearing on the value of later answers as to the past life, etc., of the applicant.

2. There are inquiries as to *the nature of the subject's occupation*.

What are his exact daily duties? Has he any occupation other than that given above? (If so, what, and how much of his time does he devote to it?) Are any of his duties dangerous, or unhealthful? (If so, what are they?) Do any of his duties require him to handle intoxicants, live wires, dynamos, or x-ray machines, to go underground, or to go up on high structural works?

Occupation is a vital part of the hazard. A difference may exist in the rate, amount or kind of insurance, or the risk may be unacceptable. Since such great improvements have been made in industry and living conditions, more occupations have become insurable. Wilford W. Mack says:¹

¹ *Weekly Underwriter*, Vol. CXII, p. 801, April 11, 1925.

As a matter of fact about the only people who are not accepted on any terms for ordinary life insurance to-day are aviators, civilian divers and submarine workers, jockeys, steeple jacks, those engaged in the recovery of arsenic, sand blasters, certain classes of glass workers, lead burners operating within inclosures, hide salters in the packing industry, and fur cutters in hat manufactories.

The list varies from company to company.

3. The next section of the report is in regard to *financial responsibility*.

Please make a liberal estimate of his net worth. About what would you estimate his gross annual income (including income from all sources)?

This information, if accurate, is especially important in connection with the amount of insurance desired. It is an indication of what can be paid for, and may be a clue to possible moral hazards. However, the experience of some companies is that such estimates are poor. One company has made a study of the reports on persons whose incomes were known to it. The estimates were so far wrong as to be considered almost valueless.

4. The fourth group of questions concern *appearance, health, past health, health of family, and exposure to communicable disease*.

Is his general appearance healthy? (If unhealthy, what seems to be the matter with him?) Do you learn of any past illness, bodily affliction, or injury that might affect the risk? (If so, what? When did it occur?) Has he any deformity, excess weight, or other peculiarity about his appearance? (If so, what?) Do you hear of applicant or any of his family having consumption, insanity, or any hereditary disease? (If so, who, and how long since?) Do you learn that he has occupied the same home with a person who had consumption or any contagious disease? (If so, how long since?)

Unfavorable answers to these questions that do not check with other reports result in further investigation. These questions strike toward the heart of insurability. The risk may be declined, or rated up, or insured with a lien against the policy, or limited in amount or kind.

5. The fifth series of inquiries concern *the extent to which the applicant uses liquor or drugs*.

Is he addicted to intoxicants or drugs—present or past? To what extent does he drink? (One, two, or three drinks a day, a week, a month, and what alcoholic intoxicant does he use? Answer as definitely as you can.) Does he ever get so intoxicated or drunk as to need assistance, or show other evidence that he has been drinking to excess? (Answer carefully.) About how many times a year does he drink to excess this way? Does this excess last for a few hours only, or for a day, or longer? About how long since the last occasion of this sort? Has he drunk to excess in the past? For how many years would you say he was drinking to excess? About how many times a year did he drink to excess? Did these excesses last only a few hours, or for a day, or longer? If reformed, how long? (Give number of years—one, three, five, etc.)

Does he use opium, cocaine, or similar drugs? (Give details.) Has he ever taken Keely or any other cure for excessive use of liquor or drugs? (If so, give date and place.)

In pre-Volstead days insurance companies would accept the risk of a moderate drinker. Today so much liquor is deadly poison that if a man drinks at all he is likely to be refused insurance. If a man has been reformed a long time and has no impairment he will be accepted.

6. The last questions are in regard to *the applicant's general reputation and any unusual hazards*.

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acter and morals good? (If not good, give details in remarks.)

Do you learn of any heavy debts, domestic troubles, personal difficulties, feuds, aviation, automobile or motorcycle hazards, or anything else that might impair the desirability of the risk? (If so, state what.) Give a full statement concerning his business connections and working surroundings, also his social standing, associates, tendencies and home life. Amplify any incomplete or unfavorable answers given above.

As a life insurance risk do you regard him as desirable?

Insurance companies are vitally concerned with any feature that affects the moral hazard, the temptation to collect insurance to help one's family or the condition of one's estate, or to die to escape a bad situation. If the inspector says the applicant is an undesirable risk the company checks the facts carefully. Little attention is paid to an inspector's "yes." The company acts upon the basis of all its information.

Riders for special cases like hazardous occupations and more extended forms for applicants for large policies are used.

REPORTS CONCERNING WOMEN

The inquiries concerning women are varied to develop information concerning husbands and children. The effort is made to restrict the amount of insurance on a woman who is not in business herself to the financial loss her death would cause to her beneficiaries, and thus prevent speculation or moral hazard.

Will the premiums probably be paid out of her own resources? If not, who do you presume will pay them, and what relation is this person to her? Is she single, married, widowed or divorced? If divorced, give circumstances of separation. With whom does she make her home? Are the general moral surroundings of her home good? (If not good,

give particulars.) Are there minor children or others dependent on her for support? (If so, how many, and who are they?) Give name of husband (if married), or father (if single). What is his occupation? About how much is he worth? About what do you estimate his gross annual income? Is his reputation, as to character, morals and habits, good? (If not good, what is the nature of the reports against him?) Do you learn of her using spirituous liquors, morphine, cocaine, or any stupefying drugs?

VALUE OF INSPECTION REPORTS

John J. King, Vice-President of the Hooper-Holmes Bureau, said in an address to the American Life Convention:²

Many underwriters have stated that they regard the inspection report as having greater value in connection with the consideration of the risk than the medical examination. The president of one company recently told me that he prefers a *good* inspection report to a medical examination in most cases, but there is the rub. We know that all inspection reports are not good in the sense in which he uses the word, any more than are all medical examinations good. The quality of the average inspection report is probably as high as that of the average medical examination, in spite of the fact that the medical examiner has a profession which has required years of study to enter, while the inspector merely has a job and a poorly paid job at that.

The inspector of a regular case is a poorly paid man. Yet, if he knows what he wants and how to get it, he can report satisfactorily the views expressed by associates and acquaintances of the subject. On the other hand it would be easy to have an incompetent staff. Inquiries among insurance companies indicate that they attach great importance to the reports—how much, depends upon the value of the reports of the agents and

² *Weekly Underwriter*, Vol. CXII, p. 1229, June 6, 1925.

examiners. If the agent's record is good and the medical examiner's record is good, as they usually are, a company to save time issues the very small policies on accepted risks without waiting for the inspection report. Then if the inspection should show something seriously wrong, it becomes the task of the company to take steps to cancel the policy. On policies classed as average they wait for the reports. On large policies companies call for special reports. While the regular reports cost the insurance companies one dollar each, special reports range in price from \$2 to \$10. Any person who applies for a large amount of insurance is certain to have his habits, associates and business scrutinized closely, and information sought to check that given in the medical examination and in the application blank.

Practical harmony must exist between all sources of information. Closely connected with inspection is the work of keeping and exchanging information as to undesirable risks. Life insurance companies report applications that have been rejected to a medical impairment bureau which immediately sends a small card record of each case to each of its subscribers. The file of these cards is always consulted before any application for insurance is accepted. If a record exists it is compared with all the other data received and carefully considered.

W. C. Hill, Vice-President of the Retail Credit Company of Atlanta, said in an address:

Inspection information of an unfavorable nature should be used with utmost care. It should be regarded primarily as a tip or indication of unfavorable conditions, rather than sufficient or final evidence of same. Confirmation through the previous action of some other company, through the agent or examining physician, or another inspector, should be secured before accepting

same as sufficient for declining or postponing the risk.

Two cases will illustrate how this may be done. A saloonist had applied for life insurance. The inspector reported that he drank with his customers often, but not to excess. The company asked for another report for the saloonist claimed to be a teetotaler. The inspector then saw him drink with a customer, but decided to put it up to him personally. He said his job was to find out why he claimed to be a teetotaler when he drank with his customers. The saloonist very plausibly related how he catered to a class of workingmen who appreciated it if he were sociable with them, and who might resent his refusal to drink; that therefore he kept on hand a bottle of tea out of which he always served himself. To the inspector's quick "let me see it" and "let me taste it," the saloonist responded with genuine tea.

Another inspector turned in a thoroughly satisfactory report on a man. Information came back that six years before this man had been refused insurance on account of having had a very serious disease. The inspector found no one who knew of his having had that trouble. As a last resort he appealed to the applicant. He was told that the applicant had at that time agreed to buy insurance which he did not want; that to avoid taking it, he had mis-stated his health history, not knowing how serious such a record would be.³

Obtained by an outside agency or by an inside independent staff which has no interest directly or indirectly in the success of the applicant, the inspection report is supplementary to, and a check on, the accuracy of the statements of the applicant, and also

³ The final decision of the insurance company as to this applicant was, "We don't want a liar on our books."

on the quality of the reports of the agent and the medical examiner. It is just as true that these others are supplementary to, and a check on, the inspection report. It is idle to argue that it is more or less important than some other source of information. If inspection alone were used, it would be found necessary to discover some plan to supplement and supervise it. Inspection obtains a different sort of information. It may also show past illness or physical condition not disclosed to the examining physician. The fact of inspection may make the examiner more careful and act as a restraining influence on the agent.

INSPECTION OF CLAIMS

Inspectors may be called upon to report as to the fact of death and the circumstances of death. As to the value of this work an inspection company says:⁴

We do not recommend these death claim reports as a satisfactory means of clearing up claims that are in dispute, or as adequate for final decision in cases of suspected disappearance, substitution, doubtful identity, or other extreme situations which require detective or other skilled probing service. Our death claim reports provide a first screening process. The clean cases will go through and the doubtful ones will be held back for more mature and deliberate processes of inquiry.

Some companies do not feel the need of an inspection report on death claims. They get a report from the agent, and separate sworn statements from the attending physician, the undertaker, the claimant, and sometimes from a leading citizen. If there be no violence and nothing suspicious, the claim is paid. If there is doubt a prober is put to work on the case. The difficulty about this plan is that each

report is likely to be friendly to the claimant; it may not uncover common suspicion.

The fact of death is easily proven. It is not so with claims for disability. There is often great doubt as to claims for temporary or permanent partial disability, to say nothing of the difficulties connected with total disability. Dishonest people make fraudulent claims and some honest people make unjust claims. The inspection report supplements other information. A negro woman put in a claim for total temporary disability. The inspector on the case dropped back two hours after his first interview and found her doing a family washing. A white man apparently totally disabled was visited by an inspector. The inspector had his suspicions aroused and returning after night found him playing games in the backyard. Insurance companies require additional reports just before the due date of premiums that have been waived on account of disability, and at least every three months in cases where a monthly income is being paid on account of total and permanent disability. If a report justifies it, a thorough medical examination of the beneficiary is made.

INSPECTION OF MEDICAL EXAMINERS AND AGENTS

Since, in the selection of risks, companies lean most heavily upon the reports of medical examiners, great care must be exercised in the appointment of a medical examiner. It is believed that to get the best results, the examiner must not be on too good terms with the agent. The doctor should feel that he owes his position, not to the agent, but to the company. In considering an appointment answers are sought to searching questions intended to show special qualifications for the work and to bring out any points

⁴ *Information about the Retail Credit Company*, p. 16.

of unfitness. Inspection reports can be used for this. Later on they can also be used to check any unfavorable indications. If, for example, the chief medical examiner observes that a doctor's reports are too much alike, as for instance too similar statements on blood pressure, something is wrong.

Most insurance companies desire agents who are not only financially responsible and capable of producing the business wished, but also men whose lives are exemplary. An inspection report is used to supplement other information.

In a few cases actuaries have noticed that the early mortality rate was unusually high among individuals passed by certain agents and doctors. Inspection has resulted in the confirmation of the suspicion aroused and the elimination of agencies who were capitalizing the ease of selling insurance to the sickly.

WHERE INSPECTION IS THE CHIEF RELIANCE

In some forms of life insurance inspection furnishes most of the information upon which the company relies when it grants insurance. The things about which the insurer must have information are: (1) Plan and amount of insurance, (2) age, (3) height and weight, (4) residence, (5) occupation, (6) personal physical condition, (7) personal history, (8) family history, (9) habits, and (10) moral hazard. A competent reporter can furnish all of this information except number 6 and he can report the reputation which the applicant has with reference to that. If confidence is lacking in the competency of outside inspection, or it is believed that the volume of inspection justifies a lower cost, a company may organize its own staff of inspectors. This has already been done by some companies who are

engaged in selling certain forms of insurance without medical examinations. It is seen from the above analysis that the acceptance of applicants without medical examinations is not so risky as many think, and especially if a large number of people are taken at once under conditions that prevent a pronounced selection against the insurer. In states where a medical examination is required by law it is the practice to resort to a short form of examination which is not so expensive as the regular form.

(a) *Group insurance.*—Group insurance is being sold in increasing amounts. No medical examination is required. The employees are taken as a group, provided all or a large per cent are covered, and the standards of employment and the conditions about the plant are satisfactory to the insurer. This is determined by the inspection made by the company. In group insurance sold by newspapers there is a chance for selection against the company unless careful individual inspection is used. Otherwise everything would hinge on the truthfulness of the applicant. Most persons who cannot say, "I am in sound health," do not apply for this newspaper-sold insurance. If one lies about his health, death within one or two years would permit the company to contest the claim. Some such persons do apply and the inspector learns from neighbors or associates of poor health or other poor conditions, so that the insurance is declined or canceled.

(b) *Additional insurance for policyholders.*—Some life companies will insure a present policyholder within a period, say two years, of his last successful application for insurance without another medical examination. The statements of the applicant plus the report of a competent inspection are considered sufficient. The company

through its recent examination knows that there are no constitutional defects or chronic troubles of long standing. It takes a chance on some recent development. However, if inspection reveals something questionable, a medical examination is proposed.

(c) *Non-medical insurance for any applicant.*—Some companies sell insurance in amounts of \$2000, or \$2500, or less, without a medical examination, provided the applicant is not over forty-five. They may sell larger amounts under \$10,000 after a short form of medical examination. There is no uniform rule. There are today many companies who accept applications without medical examination in amounts from \$250 to \$2500 with varying restrictions as to age and sex, the kind of policy, and the supplementary features as to disability and double indemnity. They may accept such applications from some agents and not from others.

Those who favor non-medical insurance argue that its advantages counterbalance any increased mortality. It is said that:⁵

- (1) There is a larger percentage of completed sales.
- (2) There is greater speed in issuing policies.
- (3) There is a saving in medical fees.
- (4) There is closer co-operation between the agents and the company. The agents have more power and responsibility.

On the other hand, it is believed that in large cities insurance without med-

ical examination results in increased mortality and that the favorable experience of Canadian companies in Canada is due to the rural population. In the country or small town either the agent or inspector knows the applicant or can get exact information. In large cities conditions are more complicated. Industrial life insurance sold in small policies to any member of a family with no medical examination and no inspection besides that of the soliciting agent, shows a much higher mortality than ordinary life insurance, but for this there are more reasons than poorer selection. A great advantage of the medical examination is that it reveals impairments of the lungs, heart, kidneys and blood pressure that have never been found before. Many diseases are not feared before forty-five—the usual non-medical age limit—but tuberculosis is always a risk for adults. Great reliance must be put upon the agent when insurance is thus sold. A minute report is made by him. He acts as a check upon the competence of the inspection. Then the inspection furnishes a clue to whether the agent is putting the soft pedal on unfavorable information. In all cases the company reserves the right to require a medical examination. If the risks sold by an agent begin to show a bad loss ratio, the company will deprive him of the right to sell non-medical insurance. Inspection can also be used to determine whether a man is applying for the maximum amount allowed from several companies.

At present there is great difference of opinion as to non-medical insurance. As experience accumulates, a more certain stand will be possible.

⁵ See C. F. Cross, "Non-medical Life Insurance," *Weekly Underwriter*, Vol. CXII, p. 793, April 11, 1925.

Beneficiary Provisions Under Modern Life Insurance Policies

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ACCORDING to figures taken from the *Insurance Year Book* for the year 1925, published by the Spectator Company, claims amounting to \$1,246,000,000 were paid to policyholders during 1925. So much emphasis is placed upon the efforts of agents to sell new business and to keep in force the business already written that the fact is crowded into the background that all their activities are a means to one end, namely, that at the death of the persons insured, sums of money may be paid out to the beneficiaries. Looking at the business as a whole, the possibilities of the turnover of funds during a given year are tremendous. As the life insurance business grows, it becomes increasingly important upon what terms these great amounts are to be paid to the beneficiaries. Are they to be paid in lump sums to be spent or reinvested by them, or are they to remain in the hands of the insurance companies in the securities in which they are now invested, to be paid out gradually to beneficiaries, or held at interest? These matters are controlled by the insured's contract with the company, and especially by the beneficial provisions of that contract. These provisions are drafted according to the request of the policyholder or applicant for insurance, and that they should be properly drawn is a matter of primary importance to the beneficiaries.

LEGAL BACKGROUND

Before entering upon a discussion of modern beneficial clauses, some consideration should be given to their legal

background. They are to a certain extent based upon the experience which the companies have had in litigation arising under the older forms of policy contracts. An exhaustive study of that litigation would involve the reading of many opinions which show a striking lack of unanimity as to the interpretation to be put upon the various provisions. There are two theories which have played a prominent part in determining the rights of beneficiaries. One of these, the insurable interest theory, is designed to protect the insured against the beneficiary; the other, the vested interest theory, is designed to protect the beneficiary against the insured.

The courts decided that as a matter of public policy, a person should not be allowed to take out insurance on the life of another unless the continuation of the life of the insured would be more to the advantage of such person than his early death. A detailed discussion of the theory and its application in specific cases is impossible here. A hasty outline of its development is all that can be attempted. Persons in the immediate family of the insured, and his creditors are considered to be interested in his continued life, and hence have an insurable interest in it. They may take out insurance upon it, having themselves named as beneficiaries, and paying the premiums thereon. There are many decisions in regard to the insurable interest of relations more or less remote, and of creditors to whom the insured owes but a small debt, some of which admit the insurable interest and

some of which do not. If the court finds that there was no insurable interest at the inception of the contract, the contract will be considered as a wagering transaction and no recovery will be allowed the beneficiary.

It is generally conceded that a man has an insurable interest in his own life. If he applies for the policy himself and pays the premiums, he can name any beneficiary he chooses, unless he is a resident of a state which by statute requires that the beneficiary must in any case have an insurable interest. In order to avoid all questions on the point as far as possible, the insured is required to sign the application for his policy himself. But if the beneficiary was without insurable interest and paid the premiums, the mere fact that the insured signed the application would not be sufficient to validate the contract with the beneficiary.

Having gone thoroughly over the ground of the insurable interest of the individual beneficiary, the courts found themselves confronted with the problem of whether or not a business organization, corporation or partnership, should be said to have an insurable interest in the lives of its officers or members. They decided that it should, on the theory that the death of the officer or partner would mean a pecuniary loss to the business. If, however, the services of the insured could be readily replaced by those of another person, probably no insurable interest would be found. The employer has no insurable interest in the life of the average employee. The ownership of stock is not considered of such importance to the corporation as to give it an insurable interest in the lives of its stockholders, although it is probable that the stockholders would be held to have such an interest in the lives of corporate officers, since the success of the corporate enterprise is of considerable importance to

the stockholder. The liberal attitude of the courts in cases involving business insurance has enabled the companies to enter this new field as they could not otherwise have done, to the mutual advantage of policyholders and companies. It may be of interest to note here that, in spite of the attitude of the courts, the Federal Comptroller of the Currency refuses to sanction insurance on the lives of important executives of national banks. Since the insurance of the lives of valuable officers is considered desirable in other lines of business endeavor, it is reasonable to assume that the regulation sooner or later will be altered.

The vested interest theory is peculiar to American law and was an early development which still persists. While the insurable interest theory makes it necessary for the insurance company to exercise care in the issuing of contracts to beneficiaries without a readily discernible interest in the continuation of the life of the insured, the vested interest theory makes caution necessary in the payment of claims upon the maturity of the policy. The older types of policies reserved to the insured no right to change the beneficiary. These policies were usually payable to the wife of the insured or in the event of her death to her children. The courts have held that such contracts create in the beneficiaries a right which can only be defeated by their consent, regardless of the fact that the insured may have paid all the premiums. Any attempts by the insured alone to change the benefit or dispose of the policy by assignment or will, must be disregarded, except in Canada and possibly one or two jurisdictions of the United States. This situation led and still leads to much dissatisfaction among policyholders. Changes in family circumstances may make a change in the beneficial arrangement of these policies desirable.

Such a change can only be accomplished by assignment by the various beneficiaries to the person to be substituted. If some of the beneficiaries are minors or have died leaving no estates and minor heirs, it is almost impossible to procure valid assignments.

As the insured in such cases is confronted with obstacles in making a change in payees during his lifetime, the insurance company is confronted with similar obstacles in attempting to settle the policy at his death. If the wife survives the insured it is a simple matter, but if she predeceases him, payment must be made to the children. Disputes have arisen over the rights of the heirs of deceased children to share in the insurance proceeds, and unfortunately there is no uniformity in court decisions on the question. It is often necessary to procure releases from many persons before the company is sufficiently protected in making a payment. Final settlement may for this reason be held up for months.

WHAT EXPERIENCE HAS TAUGHT

There are certain things that may be learned from experience with these older policies. One of them is that no contract should issue unless the beneficiary clause is complete and unambiguous. In spite of the increasing use of life insurance as a protection for business, the great majority of policies are still issued for the benefit of individuals dependent upon the insured, and at least ninety per cent of them are payable in a lump sum at his death. Most modern contracts contain a printed clause, either in the application or in the change of benefit provision, providing that the interest of deceased beneficiaries shall pass to those surviving, or if none survive, to the insured's executors, administrators or assigns. This provision does away with the necessity for making settlement with

the estates of deceased payees. In the case of a policy payable in the manner described above, it means that if the wife predeceases the insured, only those children who survive him will share in the proceeds. Grandchildren will be cut out. This fact should be considered and if the insured wishes to include his grandchildren, the beneficial clause should be specially drafted. In every case the wife should be mentioned by name, but it is not necessary to designate children or grandchildren specifically. In fact it is perhaps undesirable to do so because of the possibility that others born after the issue of the contract who should share in the proceeds could not be included in the settlement. Such children could of course be taken care of by a new designation. Too often, however, insurance policies, like wills, are not kept up to date.

Another case in which the survivorship clause might not work out as intended by the insured is that in which he provides a fractional distribution to payees. Application is sometimes made for a policy payable to several persons, perhaps creditors, who are to receive fixed proportions of the proceeds. If one of these dies before the insured his share would be paid to the surviving payees equally. This would alter the fractional arrangement and perhaps give to the surviving payees more than was intended. The contingency could be covered by the inclusion of a clause providing that the share of a beneficiary predeceasing the insured should be paid, for example, to the insured's wife, if she survive him, or if not to his executors, administrators or assigns. The use of general terms such as "the insured's estate" or "legal representatives" in the reversion clause is to be avoided because of the uncertainty as to their exact meaning.

A second conclusion to be drawn from experience under the older policies is that if a policy is taken out for the protection of the family, the right to change the benefit should be reserved to the insured. The applicant for insurance is usually asked to indicate whether or not he wishes to reserve this right. If he does not reserve it and pays the premiums himself, he should provide for a reversion to his executors, administrators or assigns in order that he may have the power to dispose of the policy in the event that the beneficiary named predeceases him. Otherwise, he will find himself in the same position that many people are in who hold the older type of policy. On the other hand, if the beneficiary is to pay the premiums, it would be wiser not to reserve the right. In general, it may be said that the person who pays the premiums should control the reserve created by them, and the policy options, unless he intends to make an outright gift of the premiums paid.

LOCAL EXEMPTION STATUTES

There is one factor meriting attention, that sometimes influences applicants for insurance to forego the reservation of this right. That factor is the local exemption statute. In the early days of the life insurance business many states passed statutes providing that policies written for the benefit of the wife or children of the insured should be exempt from the claims of the insured's creditors. The Federal Bankruptcy Act of 1898 recognizes the exemptions allowed by local statutes. It also provides that powers which may be exercised by the bankrupt for his own benefit, as well as cash values payable to the insured bankrupt, pass to his trustee, providing, however, a period during which the insured may redeem the policy by paying the trustee

the amount of the cash value. These provisions led to a doubt as to the effect of the older statutes which were not drafted with reference to policies reserving the right to change the beneficiary. It is apparent that the insured can exercise this right for his own benefit and that a change to "own" benefit would take the policy out of the class of those exempted by the statute.

Much litigation has arisen from the dilemma thus presented. The Federal courts have taken the position that unless the local statute clearly contemplates the exemption of such policies, it will not be sufficient to cover them. The state courts have taken a broader view of their own statutes and if the highest state court has interpreted the local statutes the Federal court is bound to follow its ruling. For this reason in some instances the Federal courts have been forced to retreat from the positions originally taken. Some states have remedied the difficulty by amending their statutes, as have Pennsylvania and Tennessee. In others, notably New York, the doubt persists. In states having no exemption statutes covering the wife's policies, the policies will pass to the trustee if the insured alone can demand the cash values under the terms of the contracts. If it is necessary that the beneficiary should join with him, they will not.

It sometimes happens that after a policy is issued the insured will wish to bring it under the statute and attempt to make the beneficiary's right absolute by waiving his right to make a change. The validity of the waiver of a valuable right without consideration is open to question. If the company which issued the policy will permit, it would be better in such a case to exchange the original policy for a new one containing no charge of benefit provision.

Whether or not the applicant or the

policyholder should be influenced by the possibility that his policies may be lost through bankruptcy depends upon the financial hazard involved in his business and the stability of his domestic affairs. If the family is broken up by divorce, the insured may be embarrassed if he cannot control the beneficial arrangement of his insurance. In the case of a policy on which the insured is to pay premiums, the reasons in favor of the reservation of the right are so much more forceful than those against it, that it is only in the exceptional case that the policy without it will prove entirely satisfactory. The exemption depends on the beneficiary clause only, and if the right to change is not to be provided, it is probably desirable that the insured should at least reserve to himself the right to cash and loan values.

QUESTION OF SURVIVORSHIP

Before leaving the general subject of beneficiary clauses calling for lump sum settlements with the dependents of the insured, there are at least two exceptional arrangements which should be mentioned. One of the interesting psychological developments of the modern policyholder is the fear that he and his beneficiary will be killed in the same automobile accident. Accidents in which several persons are killed are so frequent and occupy so conspicuous a place in our daily life that a person who is genuinely intent upon having his insurance proceeds go where he wishes to have them gives the possibility of the simultaneous deaths of himself and his wife serious consideration. It is perhaps a phase of the well-known anti-mother-in-law attitude. The insured puts the question, "If my wife survives me by a few hours, or a few days, who will get my insurance money, her family or mine?" Of course, if there are surviving children they would take the

money as heirs of either or both estates; if there are none, the wife's next of kin would inherit it.

There is also the possibility that there will be no evidence as to whether the insured or beneficiary lived the longer. Contrary to the idea that many people have, the courts will make no presumption in the absence of evidence as to which survived the other. The majority rule seems to be that under the modern benefit clause carrying proceeds to "my wife, if she survive me, if not, to my executors, administrators or assigns," the burden of proof will be upon the wife's estate to show that she survived. If the burden cannot be sustained there will be a reversion to the estate of the insured.

Cases in which there is absolutely no evidence as to the survivorship are infrequent. Insurance companies are reluctant to make settlement in doubtful cases without releases from the executors or administrators of both estates because of the danger, if not the probability, that litigation would ensue. For this reason, a simple provision for a reversion to the insured's estate in the event of the simultaneous death of the insured and beneficiary is unsatisfactory. Insurance companies cannot afford to assume that all possible claimants will acquiesce in their decision that the deaths were in fact simultaneous.

To meet this situation and insure prompt payment of claims, various suggestions have been made. Frequently, the addition of some clause to the usual provision is suggested, such as the following; "but in the event that my wife shall perish with me in a common disaster, or shall not survive beyond midnight of the tenth day following the day of such disaster, to my executors, administrators or assigns." Such a clause might cover the case if there were no clear evidence of survivorship,

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or if the wife died within two or three days. If it became apparent that she could not live long, and yet she was still alive at the end of a week, it would be a close race between her brothers and sisters and those of the insured,—surely a sad position for the wife. Because circumstances might easily occur in which the wife might almost feel it a duty to cling to this life beyond or depart it before a certain point of time, such a provision is objectionable.

Perhaps the best way of covering the contingency is by a deferred settlement. Most companies would be willing to hold the proceeds at interest for a year, at the end of which the principal could be paid to the widow, if living, or, if not, to some other designated beneficiary. A longer period would be allowed for the wife's recovery with more certainty that the insured's plan for his beneficiaries would be carried out than under any simple benefit clause calling for a lump sum payment.

THE TRUSTEE AND MINOR

The second of these somewhat unusual arrangements is that calling for payment to an individual trustee for a minor beneficiary or beneficiaries. The clause may read "to Samuel Jones, in trust, however, for my daughter, Jane Smith." It is seldom, in the writer's experience, that these clauses are correctly drawn in the first instance. They will be defective in that they fail to provide for the possibility that the trustee or beneficiary may predecease the insured. There should be a provision that if the trustee does not survive, payment should be made to the beneficiary. If at the maturity of the policy the beneficiary is a minor or an incompetent, the insurance company would make payment to the legally appointed guardian or conservator rather than to the beneficiary direct. Probably if the nature of the naked trust

created by such a clause were generally understood, the clause would not be requested. The trustee, in the absence of a definite oral understanding or written agreement with the insured, probably has no power to hold the fund after he collects it. His is what is legally known as a "passive or dry trust" and he would be bound to turn the fund over to the guardian or conservator if such were appointed by the court. The guardian's powers are much greater than those of such a trustee as he is expected to care for the minor's estate, paying such sums for his or her support as may be necessary during the period of minority. It would be quite as satisfactory in most cases, simply to name the beneficiary in the policy and allow the matter of guardianship to work itself out in the event of the insured's death during the beneficiary's minority. It would be possible under the laws of many states for the insured to solve the problem by the appointment of a testamentary guardian in his will. It would be well worth the while of the policyholder in such a case to consult his attorney in order to assure himself that his plans for his minor children will be carried out as he intends to have them.

It is oftentimes found desirable to enter into a more formal arrangement by which the proceeds will be held by the insurance company under a deferred settlement agreement or paid to a trust company subject to the terms of an agreement to be made between the trust company and the policyholder. Either of these plans would insure the protection of the beneficiary over a term of years. Trust companies and insurance companies are not competitors in this field, but co-operators. Since a very large portion of decedents' estates consists of life insurance, it is only natural that trust companies whose business it is to handle such

estates should be interested in encouraging the taking out of life insurance. It is also to be expected that insurance companies should offer their investment facilities to policyholders who wish to avail themselves of them. The different plans of deferred settlements offered by life insurance companies are discussed in an article entitled "Income Policies" by Walter LeMar Talbot, in *The Annals of the American Academy of Political and Social Science* for March, 1917.

Although the deferred settlement has been adapted to many new uses since the publication of that article, the new features are rather concerned with the beneficiaries than with the plans of payments. It is now possible to get a great variety of beneficial arrangements, meeting the needs of beneficiaries from their college days to old age. Behind these settlements is the company's guarantee of an income of at least three per cent backed by the company's general assets. The strength and solidarity of the insurance company with its vast assets may seem a refuge to policyholders who have contended with the instability of banking conditions in certain parts of the country. The policyholder who is adequately insured can feel that the deferred settlement may provide for his beneficiaries a greater financial security than he has been able to assure them while living.

WAYS OF EXPEDITING SETTLEMENTS

In making a choice between the two forms of what might be called long-term protection, the foregoing points should be considered together with the insured's own circumstances which may make the service offered by one of the possible trustees seem better suited to his needs than that of the other. The deferred settlement, once it becomes effective at the maturity of the

policy, is not flexible. The insured should bear in mind the fact that unforeseen emergencies may arise calling for the immediate expenditure of more money than could be realized by the beneficiary under the deferred settlement. If he expects to leave no assets that can be readily liquidated, he should arrange that at least one policy is payable in a lump sum to the beneficiary. If a trust company is to handle the trust, it may be given discretion to pay out portions of the principal in case of need. It may also be permitted to purchase with the fund investments from the insured's estate. This power might prove to be of great assistance to the executors. The facilities available to trust companies and their location at the place of residence of the insured and the beneficiaries make it possible for them to undertake a greater responsibility for the welfare of the beneficiaries than the insurance companies can assume.

THE "FUNDED TRUST"

There are two arrangements which an insured may make with trust companies in regard to the payment of premiums. He may pay the premiums out of his own funds. Or he may name the trust company as absolute beneficiary under the policies and place with it sufficient funds to meet the premiums under the policies as they fall due. This plan is known as the "funded trust." Even under a funded trust the insured may, if he wishes, reserve the power to remove policies from the trust or add new ones to those already included and to withdraw the fund provided for the payment of premiums. It has been suggested that the funded trust is particularly suitable for a man who holds a considerable number of securities paying a high rate of interest but having an attendant speculative risk. These securities may

be placed with the trust company and withdrawn in case of need.

POLICY CONTRACTS

Any trust agreement entered with a trust company should be drafted only after a careful study of the policy contracts to be covered. If there are rights reserved to the insured in the contracts, the trust agreement should permit of his exercising them and should cover the point specifically. If, for example, the policy provides that the insured may borrow the reserve, the trust agreement should not provide expressly or by implication that he may not. A variation between the terms of the trust and the policy contract is likely to lead to friction with the insurance company. Just how far a policy naming a trustee as beneficiary is impressed with the trust has not been determined. Insurance companies, therefore, feel that to protect themselves they must respect the terms of the trust agreement and will not be parties to transactions with the insured which it does not permit. If the trust is to be irrevocable and the insured is to have no control of the policies, they should be assigned outright to the trust company.

WHERE SOUND JUDGMENT IS NEEDED

Both deferred settlements and agreements with trust companies may be made to contain clauses protecting the income from claims of creditors and restraining the beneficiaries from assigning their interests. There are many cases where such clauses are very desirable and there are undoubtedly many cases where such clauses will prove undesirable. Their use is a matter of sound judgment. They may be desirable if the principal beneficiary is the insured's wife, especially if she has had little or no business experience. If, however, the beneficiary is, for ex-

ample, a son of the insured, a protected life income might prove to be positively harmful. The effect upon the character of the recipient of an assured income which cannot be reached by creditors is not always salutary. The English courts do not look with favor upon such clauses. The American courts, however, have taken a different position in regard to them, and their validity is generally recognized in the United States at this time. The American courts have not had to deal with the problems that confronted the early English courts and may have been taken off their guard by the spendthrift trust.

POLICIES AS SECURITIES

As an intermediate step between the protection of individuals and business insurance, the use of policies as security presents itself. Policies are commonly accepted by individuals and by banks as security for the insured's indebtedness, and an unsatisfactory form of security they often prove to be. They are unsatisfactory for two reasons. One of them is that the face of the policy, rather than its cash value, is frequently taken as determining the protection it affords. If we have recommended earlier in this paper that parties read the insurance contract, we recommend it even more strongly to the person who is intending to accept a policy as security. He should find out how much of a cash value the policy has. If it appears to be substantial, he should examine the loan provisions and determine by inquiry from the company, if necessary, whether there is an automatic premium loan request on file at the home office which has caused or may cause the policy reserve to be eaten up by premiums in the event that they are not paid by the insured. He should make sure that there is no beneficiary named whose release he has not obtained. If he contemplated having

himself named as beneficiary under a policy to be issued, he should see to it that the policy does not reserve to the insured the right to change the benefit. If his designation as beneficiary is followed by the words "as his interest may appear," the insurance company making settlement at maturity will usually require proof of the amount of his claim and pay any balance to the contingent beneficiary. After he obtains title to the policy he should take care that the premiums are kept up or, if the insured is not in a position to pay the premium and he does not care to do so himself, he should surrender the policy at once, provided he is entitled to do so, before the cash value begins to run off.

A second source of difficulty for the assignee is the insufficiency of the form of assignment which he holds. It happens more often that a policy is assigned to a creditor than that he is named as beneficiary under the contract, and it often happens that he accepts an assignment carrying no power of sale. There has been a certain amount of confusion in the court decisions affecting assignments of life insurance policies to creditors. It is becoming apparent that if an insurance company makes settlement with a collateral assignee who holds no power of attorney or power of sale, without procuring a release of the insured's equity, it is quite possible that it will subsequently have to pay the face of the policy to the beneficiary. It will, therefore, usually insist upon obtaining the insured's signature before surrender. To protect himself properly, the assignee should procure authority to surrender the policy upon default in payments on the note without notice to the debtor. In any event, he would probably be held to be accountable to the debtor for any excess over the amount of the debt and accrued interest.

INSURANCE AS A BUSINESS PROTECTION

The last point to be discussed is the use of insurance as a business protection. Business insurance is so broad a subject that it merits a much fuller discussion than can be given here. There are many forms of agreements, a few of which we will outline. In general we may say that these agreements, like trust agreements, should be carefully drafted with reference to the provisions of the policies themselves. If new insurance is to be taken out, the whole arrangement should be planned before application is made. As we have already pointed out, the courts have been liberal in admitting the insurable interest of corporations in their officers. If the insurable interest exists at the inception of the contract, the corporation need feel no concern as to its validity if the officer leaves its employ.

The owners of close corporations often feel that the death of a stockholder will result in a lack of harmony in the management of corporate affairs and, in order to guard against disagreements and the resulting financial loss, will take out insurance payable to the corporation upon the lives of stockholders who are actively engaged in managing the corporate business. In states which permit a corporation to buy its own stock, an agreement may be entered into, among the stockholders and the corporation, specifying how the premiums shall be paid, what use shall be made of cash and loan value privileges under the insurance policies during the lifetimes of the persons insured, and stipulating that at maturity the corporation shall apply the proceeds to the purchase of the stock of the insured from his estate, the insured agreeing, for his legal representatives, to sell the stock to the corporation. The agreement should

specify in detail the method by which the stock shall be valued and the disposition to be made of excess proceeds, if any, as well as the mode of making up the deficit in the event that the value of the stock is more than the amount of the proceeds.

An arrangement is sometimes made in which a trust company holds the stock certificates and the policies in escrow, the policies being made payable to the trust company, and manages the entire transaction at maturity of the policies. Such a plan is suitable for cases in which several stockholders and policies are involved and in which it is desired to prevent the stockholders from selling their shares to outside parties during their lifetimes.

In those states in which a corporation is not permitted to purchase its own stock, a plan may be used similar to that often employed by partnerships, under which policies will be issued on the life of one officer and principal stockholder, payable to the other or others, the parties agreeing that the proceeds shall be used for the purchase of stock from the insured's estate, by the surviving party or parties to the agreement.

The use of insurance for partnership purposes differs very little from its use in the protection of corporations. In a partnership the policy on the life of one partner may be made payable to the other, and the cash and loan value privileges vested in the partnership. The agreement between the partners should cover the sale of the deceased partner's share in the assets to the surviving partner and the use of cash and loan values by the partnership during the lives of the partners. Some provision is usually made for the taking over of the insurance by the individual partners in the event of the dissolution of the partnership, except by the death of one of the partners. In case of large

partnerships the insurance may be made payable to the firm. The settlement of death claims requires special care in such cases, because of the fact that notice of the insured's death is at the same time notice of the dissolution of the partnership. Insurance companies find themselves beset with difficulties because partnership agreements are defective or non-existent. If the partnership agreements are carefully drawn to cover the principal benefits provided by the policy contract, namely, the death benefit and cash and loan value privileges, life insurance should prove to be a great help in the equitable settlement of partnership affairs upon the death of one of the partners.

DRAFTING BENEFICIARY CLAUSES

In conclusion, we can do no better than to emphasize the need for careful thought in drafting beneficiary clauses. This thought should be directed by a few general rules. These rules, by way of recapitulation, are that in disposing of policy options the rights of the person or corporation paying the premiums should receive primary consideration and protection in the contract to be issued. Since the law takes a special interest in protecting the beneficiary, the contracting parties must look out for the rights of the insured. In cases in which the policy is covered by a trust, partnership or corporation agreement, no contingency which might affect the policy should be left out. The right to exercise the options should be disposed of in the same manner as in the policy itself, with due regard to the possible effect of such disposition upon the rights of trustee and beneficiaries. The foregoing are simple rules, and if they could be followed there would be less dissatisfaction with policy contracts or friction between companies and policyholders and beneficiaries.

Unfortunately, unforeseen circumstances will arise in spite of the effort and forethought put into the preparation of documents. We can hope, however, that with the increasing un-

derstanding of the nature and uses of the life insurance policy, litigation arising from defective beneficial arrangements will become less and less frequent.

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Fraternal Life Insurance

By CHARLES K. KNIGHT, PH.D.

Professor of Insurance, Wharton School of Finance and Commerce, University of Pennsylvania

THE past decade has witnessed an actual decline in the total number of dollars of fraternal insurance in force in this country. Thus at the close of 1916 there was approximately \$11,000,000,000 in force with the fraternal societies; whereas there is but approximately \$10,300,000,000 on their books at the present time. When one considers the decline in the purchasing power of the monetary unit and the increase in population during this period, the significance of these figures is even greater than it is when one considers merely the sums themselves. Meanwhile, life insurance granted by the so-called old-line or legal-reserve companies has been increasing by leaps and bounds, the totals in force on the above-mentioned dates being \$25,000,000,000 and \$79,000,000,000, respectively. Furthermore, during the period from 1910 to 1920, the societies wrote about thirty-three per cent of the total amount of life insurance written in this country, whereas of late years they wrote but fifteen per cent of it. It is clear, therefore, that the decline in fraternal insurance has not been due to a lowering of the demand of the people of this country for life insurance, but to conditions within the fraternal system itself.

Fraternal insurance societies sell insurance for the protection of the insured person's dependents in event of his death. They also offer old-age insurance, health and accident insurance, and juvenile insurance. All of these forms except juvenile insurance have been offered for many years, the first fraternal benefit society having

been formed in this country in 1868. Down to about fifteen years ago, the rates charged by most societies were inadequate to meet the benefits promised. As a result, many of such organizations passed out of existence, and others were forced to readjust their insurance to an adequate-rate basis.

This necessary readjustment has been a serious matter for most fraternal societies that have attempted it. The older method of accomplishing it was simply to pass a by-law requiring higher assessments, or the reduction of benefits. Such a procedure resulted in heavy withdrawals of healthy members, whereas the unhealthy ones remained with the society. More recently it has been learned that greater success attends the efforts at readjustment when expert salesmen are employed for the purpose of securing the consent of each member to the conversion of his certificate to the adequate-rate class. The conversion is made by issuing a preliminary term certificate at the member's attained age. The salesman receives a substantial proportion of the first twelve monthly premiums. Special "service" corporations have arisen to train salesmen for this work. By such a process, enough healthy lives can be transferred to offset the tendency toward adverse selection.¹ A society in the process of readjustment, however, finds it difficult to secure new members, as well as to hold all of its old ones. The immediate result of readjustment, or of an attempt

¹ See the author's *Advanced Life Insurance*, pp. 370-91. New York: John Wiley & Sons, 1926.

at readjustment, has nearly always been a smaller membership as well as a smaller amount of insurance in force. Furthermore, the process tends to destroy the prestige of the society, particularly with those who do not understand the necessity of the higher rates.

Failure on the part of some societies, then, and the necessity of readjustment on the part of others, has resulted in greatly weakening public confidence in the institution of fraternal insurance generally. Before the societies can hope to make much progress in the future, they must re-establish that confidence. In other words, fraternal insurance must be resold to the public.

It is a fairly safe prediction, however, that fraternal insurance on the old inadequate-rate plan can never again be sold in any considerable amounts to the American public. The public has learned that this plan, though furnishing cheap protection during a society's early years when most of its members are young, is unsatisfactory in the society's later years when the advancing age and death rate of its members render failure or readjustment inevitable. The beneficiaries, relatives and friends of those members who die early enough to have the face amounts of their certificates paid in full, are quite well satisfied with the inadequate-rate plan. A large majority of the members of such a society, however, live to the time when increased rates or a reduction of benefits is absolutely necessary. These members, together with their relatives and friends, are prone to voice their disappointment and disapproval of the plan. This disapproval has not been minimized by those interested in increasing the amount of sound protection. These are the chief reasons for believing that the public could not be induced to

purchase any considerable amount of unsound protection.

ACTUARIAL SOLVENCY

The principal efforts of the fraternal societies during the past decade have centered around the question of adequate rates, or, stated differently, the question of actuarial solvency. A society, or indeed any other life insurance organization, is said to be actuarially solvent when it will be able to pay all of its promised benefits without increasing the rates of assessments or premiums paid by its members. A life insurance organization will be able to meet its claims without such an increase when it has funds which, together with the present value of assessments or premiums payable to it in the future, equal the present value of the benefits promised, all calculations being made on a conservative mortality and interest basis. The determination of the amount of these necessary funds is called valuation—the funds themselves, reserves, reserve funds, or funds to meet the reserve liability. Life insurance companies, speaking generally, are required by law to maintain funds to meet a reserve liability determined according to the American Experience Table of Mortality with interest at three and one-half per cent compounded annually. Companies may elect full-premium valuation, or some modification of it that will yield lower reserves than it would yield, such as the preliminary term method modified according to the Illinois standard, or some other standard.

For the societies, again speaking generally, the National Fraternal Congress Table of Mortality with interest at four per cent compounded annually has been established. This basis yields lower reserves than those required of commercial companies, but they are high enough for practical purposes.

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Fraternal societies of sufficient size may use a mortality table constructed from their own experience. Recently there has been considerable discussion of a table described by Mr. Edward B. Packler in a paper read to the Fraternal Actuarial Association in February, 1926.

Legislation compelling actuarial solvency on the part of fraternal benefit societies by setting up legal minimum standards of valuation has met with but varying success in this country. The so-called Mobile Bill, agreed upon in 1910 by a committee composed of state insurance commissioners and representatives of the National Fraternal Congress and the Associated Fraternities of America, was thought to be too severe when put in practice in a few instances. For it was substituted a bill drawn by a similar committee in 1912, and known as the New York Conference Bill. This bill, with modifications and additions, has been adopted as the fraternal insurance code of many states. The code, as it exists today in most states, allows a wide latitude to the societies in the way of actuarial solvency.

The situation at the present time is that some of the societies are on an actuarially solvent basis as regards all members, others place new members in the adequate-rate class, and still others are in need of further readjustment. A valuable aid to the person who is considering the advisability of entering a particular fraternal benefit society would consist in a frank and simple statement of the ratio of reserve funds held by it compared to those required to meet all of its claims. The Wisconsin Insurance Reports contain tables showing the important results of valuation in that state including the ratio of actual assets to required reserves, and the ratio of assets (actual and contingent) to liabilities (actual and con-

tingent). A copy of the important tables appears in the August issue of *Best's Insurance News*, published by the Alfred M. Best Company of New York.

JUVENILE MEMBERSHIP

Aside from the struggle toward actuarial solvency, and aside from legislative matters, the fraternal benefit societies have been interested during the past decade in several other problems that have confronted them. In the first place, it was realized during this period that some measure should be taken to enable societies to accept children for membership, so that members need not have recourse to the so-called old-line or legal-reserve companies in order to insure all of the members of their families. Facilities for offering such protection have been provided by legislation in many states, and a number of societies have attempted to sell insurance on the lives of juveniles. Considerable success has attended their efforts, probably as much as \$70,000,000 being now in force on approximately 300,000 lives. The mortality rate experienced thus far on juvenile risks has been very favorable. During a recent year the actual deaths were only forty-eight per cent of those expected, according to the Standard Industrial Table of Mortality, which is the table commonly used by commercial life companies for industrial insurance. The funds necessary for conducting the juvenile department of a society are segregated from its other funds.

Originally it was provided that only children of members could be insured in a society's juvenile department, but more recently the law has been amended in many states so that children of non-members as well as those of members may be insured. It is hoped by fraternalists that insurance on the lives of juveniles will result in training them to believe in, and to continue, this form of

protection upon attaining the required age for entering the adult class, and that parents who are not members of a society will be attracted to the fraternal plan. There seems to be little doubt but that juvenile insurance can be written by the fraternal societies in sparsely settled regions where the weekly house-to-house visitation of the industrial agent would be impracticable. In such regions, however, the head of the household is likely to receive his income at irregular intervals, such as at the marketing of important crops, and would therefore be more likely to purchase annual premium insurance than to make regular weekly or monthly payments of either industrial premiums or fraternal assessments.

As pointed out by the writer in his *Advanced Life Insurance*, Chapter XX, fraternalists admit that the cost of mortality is not likely to differ much in one large group of well-selected lives from that in another and similar group. Some fraternalists maintain, however, that the economy of management resulting from the democratic form of government renders the overhead expenses of fraternal insurance less than that of commercial insurance; and that, as a result, the total cost to the fraternal certificate-holder is less than the cost to the old-line policyholder.

OVERHEAD EXPENSES

As regards overhead expenses, it may be stated that during a recent year the societies belonging to the National Fraternal Congress of America spent almost \$18 for each \$1000 of new insurance written. The lapses were so numerous, however, that the net cost of new business to the societies was probably twice as great as this. Thus in that year the societies paid out over \$11,000,000 for new business, and yet ended the year with over 200,000 fewer members and more than \$200,000,000

less insurance than they had at the beginning. New business expenses, though preponderant, do not, of course, constitute all of the expenses over and above mortality costs.

COMMERCIAL VS. FRATERNAL INSURANCE

Taking up the question of cost to the insured person, it is difficult to make an accurate comparison of fraternal insurance with commercial policies. The current method of determining the average annual payment of the commercial policyholder is discussed quite fully in the author's book, *Advanced Life Insurance*, pp. 209-20. Local dues and payments made by fraternal certificate-holders for purposes other than insurance should be eliminated to arrive at the fraternalist's average annual payment.

In a paper read before a recent meeting of the National Fraternal Congress of America, Dr. George W. Hoglan¹ states that he made a comparison of the yearly cost, without local lodge dues, of ten representative fraternal societies operating on an adequate-rate basis, with the cost of ten representative old-line companies. He selected age thirty, and, though he did not state his method of determining the costs, it seems probable that he used the usual methods, and chose non-participating premium rates for policies without double indemnity or disability provisions. His conclusions were that the fraternal societies' average cost to those entering at age thirty was \$20.81 per \$1000 of insurance per year; whereas the companies' average cost to those entering them at that age was only \$18.29, or \$2.52 per \$1000 per year less than the cost with the societies. He further pointed out that the lowest old-line rate was \$3.62 lower than the average rate for the ten societies, without local lodge

¹ See Proceedings, 1923, pp. 393 et seq.

dues, and that if these dues were included in the cost to members, the average cost of the ten fraternal societies would exceed the cost of this old-line company by \$6.62, or by nearly thirty-eight per cent.

REASON FOR INCREASED COST

In view of the fact that, until very recent years, fraternal insurance has been looked upon as much cheaper than old-line or commercial insurance, these figures are indeed startling. The increase in the cost of this form of protection has been brought about chiefly by the efforts of the societies to accomplish two objects. The first of these was the attainment of actuarial solvency by readjusting their business to an adequate-rate basis, and the second one was to resell the plan of fraternal insurance to the public.

It should be understood that cheap fraternal insurance on an inadequate-rate basis still exists, the most recent Wisconsin report showing a grand total ratio per cent of actual assets to required reserves of but 56.2 per cent for all societies operating in that state. Readjustment has been discussed previously in this article.

Reselling the fraternal insurance plan to the public has involved a large increase in the remuneration of fraternal deputies or special representatives who act as agents of a society in much the same manner as do the agents of a commercial company act for it. In former years, societies grew because of the efforts of members—old ones bringing in new ones. This method of increasing membership is no longer effective since so many old members lost enthusiasm for the plan when readjustments were necessary, and new business must now be secured in the same manner as that of commercial companies. When faced with this change in conditions, the societies found

themselves without an organized sales force to do the work formerly done by members. So-called service companies have trained salesmen to help the societies, for a substantial commission, to resell the plan, especially on readjustment. Sales forces have now been developed by the societies and by these companies to such an extent that considerable fraternal insurance can be, and is being, sold, but after it is sold a second difficulty presents itself. Most of the members pay in but a small fee on joining a society. They are then supposed to be held in the society by the local secretary or collector, who is often given little or nothing for his work. The result is that from one-third to one-half of the new business written lapses within a year. It is thus seen that fraternal insurance has commercialized its field work to the extent that the cost of securing new business at least equals, and indeed it often exceeds, the cost of obtaining new business for the commercial companies. Yet to date the societies have been unable to obtain the same efficiency, economy, stability, and confidence that characterizes the business of the companies. In fact, the most progressive societies that are maintaining, or striving successfully towards, actuarial solvency, are repeating, in large measure, the early experience of the companies.

FRATERNAL BENEFITS

Another phase in the recent development of this business has to do with the provisions of the fraternal benefit certificate. In addition to juvenile insurance, one may now purchase insurance covering the whole of life, or only a term of it. Whole-life certificates may be purchased on either the level-premium or the step-rate-premium plan. In the case of whole-life insurance on the step-rate-premium plan, the premium becomes a level one after

attaining some specified age such as sixty or sixty-five. If the insured person wishes to do so he may pay an extra premium, over and above the step-rates, during the step-rate period, the accumulation of extra premiums being used to reduce the level premium that begins late in life below what it otherwise would be. One may also purchase endowments of different durations, or limited-payment life insurance. In fact the life benefits promised in fraternal benefit certificates are quite similar to those guaranteed by the contracts of commercial companies. It is also not uncommon to provide an accident and sickness benefit in fraternal certificates.

It should be noted, however, that the fraternal benefit certificate is not a closed contract, but includes the by-laws of the society, and any amendments of them that may be made. Furthermore, the society is required by law to reserve the right to levy additional or increased assessments, and if these are not paid, it may reduce the amount of insurance. A commercial company cannot increase the premium rate on policies that have been issued beyond the gross rate stipulated in the contract.

IN SUMMARY

To summarize the principal occurrences in the field of fraternal life in-

surance during the past decade, which covers the time elapsing since the publication of the last volume of *The Annals of the American Academy of Political and Social Science*, devoted to insurance,³ we may state that the fraternal system has made substantial progress toward placing its business upon sound and enduring plans. Assets have increased and a higher percentage of solvency than that prevailing a decade ago has been attained. As a whole, the societies have steadily advanced towards an adequate-rate basis. They have adopted more businesslike methods and plans for conducting most of their activities than those previously employed. In the matter of selling their insurance and keeping it in force, they have not yet succeeded in perfecting an organization that functions efficiently. The cost of securing new business has greatly increased until it now seems very high compared to former costs. In fact, this increase has been so great that we have numerous instances in which sound fraternal insurance costs the insured person more than does the sound commercial insurance issued by old-line or legal-reserve companies.

³ See *The Annals* for March, 1917, on "Modern Insurance Problems."

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The Fire Prevention Work of Stock Fire Insurance Companies

By H. A. SMITH

President, National Fire Insurance Company of Hartford, and Chairman, Advisory Insurance Committee of the Chamber of Commerce of the United States

SOME years ago it was realized by executives of the leading stock fire insurance companies of the country that, although the business profited because fire is an ever-present possibility in all walks of life, the incineration of material wealth was reaching proportions which threatened economic disaster. As a consequence they authorized The National Board of Fire Underwriters, which today represents two hundred and ten stock fire insurance corporations, and is supported by them, to formulate a campaign along engineering and educational lines that would result in safeguarding life and property to the fullest extent possible. Such a program was at once undertaken and it has developed steadily in scope and intensity with the years.

This campaign has not been based upon narrow self-interest but upon a recognition of the following principles: (1) That every person and every organization owes more to the common welfare than mere industry and obedience to the law; and (2), that those whose commercial activities result from the existence of any given condition, the effects of which are detrimental, cannot avoid the responsibility of seeking to limit its public menace.

This viewpoint developed after the National Board was organized in 1866 to save the business of fire underwriting from disruption due to the demoralization which followed the Civil War. At first it had undertaken to be the controlling factor in fixing both rates and commissions and thus started

out to be a fire insurance trust; it was, in essence, the first great American trust, antedating by some twenty years the much-discussed period of combination in industry and finance. Early efforts were disastrous, however, and, in 1876, it was definitely decided to abandon the attempt to determine rates. About ten years later, all supervision over agents' commissions was relinquished.

SERVING THE PUBLIC

Thus the Board made its exit from the field of jurisdiction over such technical insurance matters, and since then has grown steadily as an institution of a purely service character, its work benefiting the public as well as the companies composing its membership.

The operations of the organization are under the supervision of an Executive Committee, of which the president is an ex-officio member, and to this body the following sub-committees report: Actuarial Bureau, Adjustments, Claims and Forms, Construction of Buildings, Finance, Fire Prevention and Engineering Standards, Incendiarism and Arson, Laws, Membership, Public Relations, Statistics and Origin of Fires, and Uniform Accounting. The working force consists of a General Manager and office staff, and the special staffs of the following six committees: Actuarial Bureau, Construction of Buildings, Fire Prevention and Engineering Standards, Incendiarism and Arson, Laws, and Public Relations. With the exception

of the Laws Committee, all of these departments are actively promoting fire prevention and fire protection. Operations are nation-wide; headquarters are in New York, but branch offices at Chicago and San Francisco supply territorial engineering, arson investigating and legal service.

CENTRALIZING FIRE LOSS RECORDS

The Actuarial Bureau is the center of fire loss statistics for the United States, and as far as is known has no counterpart in this country or elsewhere. It has a membership which includes "outside" companies as well as Board members and from all receives adjusters' loss reports which give the values destroyed, insurance payments, structural data and other information. For the past few years it has collected about one million reports annually, and since its inception has received approximately nine millions of these documents, which have had to be examined, classified and tabulated by causes and construction. On a large loss there are always a number of companies involved and from each must be obtained data necessary to complete the record. The reports are boiled down eventually to actual claims on the various risks involved and there are nowadays about four hundred thousand such claims each year.

The Bureau also operates a Loss Information Service which supplies confidential reports to members concerning persons who have acquired what might be called the "fire habit," such data being obviously of a preventive nature.

An instance illustrating how this service functions relates to an actress who toured the Pacific Coast cities a few years ago leaving a trail of fire in her wake. Almost every time she stopped at a hotel long enough to

unpack her wardrobe, a fire would occur and seriously damage her personal belongings. She would immediately file a claim alleging that she had accidentally dropped a cigarette in her trunk, or had ignited gasoline while cleaning her clothes, or in some other way had fortuitously started a blaze. The evidence was always circumstantial but corroboration was supplied by the woman's mother, or her friends, so that it was difficult to shape up a watertight case for a jury. The adjusters who handled her claims, however, embodied their well-founded suspicions in their reports and these statements converged in the files of the Loss Information Service, where their significance at once became apparent.

Thwarting criminal endeavor of this nature is clearly in the interests of the public as well as of the insurers, since the person who "burns for profit" necessarily adds to the cost of indemnity which must be paid by honest policyholders. Besides this, the defrauding policyholder also endangers, and frequently damages, the possessions of the upright.

The Board's Committee on Construction of Buildings has been termed a clearing house for information upon fire-resistive construction and similar technical subjects, but it is more than that; it has acted as a source of inspiration and assistance in bettering structural methods in all classes of buildings and in all parts of the country; it co-operates with municipalities everywhere in formulating building codes and, by request, has submitted, gratis, practical criticisms of hundreds of such laws.

The first edition of its Building Code was published about twenty-one years ago, and the work has since become recognized as the standard of fire safe construction, which means, also, construction that is slow to deteriorate.

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It has also circulated widely a booklet dealing with inexpensive methods for increasing the fire safety of dwelling houses by means of fire stops between floors, proper chimney construction and so on. This Committee has, in addition, organized the attack on the wooden shingle roof, which has been responsible for the spread of numerous conflagrations.

SAFEGUARDING CITIES

The work at present carried on by the Committee on Fire Prevention and Engineering Standards is the direct outcome of the Baltimore conflagration which occurred in 1904. On that occasion it was forcibly brought home to insurance engineers that the increasing congestion of values in the larger cities represented a menace both to the public and to the business of fire underwriting.

The crowding of population into the limited areas in itself creates a fire hazard, as was then recognized, and steps were taken to bring about an expert study of the situation, with a view to formulating systematic measures for fire protection and fire prevention. Following the Baltimore conflagration the Board appointed a Committee of Twenty for the purpose of investigating the conditions mentioned so as to determine what remedial measures should be instituted in Baltimore, but the fundamental importance of the work soon became so obvious that the Committee was made permanent.

It is worth noting that in 1905 the engineering experts comprising the Committee predicted, following their inspection of San Francisco, that the construction of the city and other factors were so unfavorable that a sweeping fire was an ever-present possibility. What followed in April of the next year is a matter of history.

Ever since that time, with the excep-

tion of the war period, the Committee has been engaged in making engineering surveys of American cities, and investigating numerous technical factors in fire prevention and protection, and perfecting ordinances covering hazardous industries. It is reasonable to say that its careful and constructive inquiry into the various phases of the conflagration hazard has been at the root of a large part of the improvement in municipal conditions as regards physical protective factors, fire department equipment and operation, water supply and other items which affect the fire situation.

The Committee's engineers usually operate in field parties of four consisting of an investigator trained in water works practice, another to report on the fire department, fire alarm system and other fire department auxiliaries, a structural man who checks up physical conditions in the mercantile and manufacturing districts, and a general assistant. These field corps visit cities by invitation only and carry on their activities without charge to the municipalities. In the case of cities of one hundred thousand population an inspection requires about four weeks, but in the larger centers the stay of the engineers may continue for several months.

The water supply, being of primary importance, is studied with respect to its source, reservoirs, pressure, size and arrangement of mains, spacing of hydrants and other essential matters. Fire department engines are taken out and carefully tested. The fire alarm system is also tested and studied, wind velocities are ascertained and all other factors contributing to the conflagration hazard are investigated in detail.

At the close of this thorough-going survey, which is in the nature of a fire hazard diagnosis, the engineers prepare an exhaustive report accompanied by maps and diagrams as well as suggestions

for correcting every defect that has been noted. For this reason the reports are not simply critical but are also constructive.

Thus far about three hundred and seventy-five cities have been reported upon in detail (many several times) and furnished with valuable, expert surveys at the Board's expense. As indicative of the benefits accruing from these inspections there may be cited the case of Jackson, Michigan, where it was found that on one side of the main street the water supply was copious while on the other it was deficient. Inspection disclosed the fact that the low pressure on the one side was due to the gate valves being threaded differently from the others. The city water department had no record of this condition and for years the valves had been closed when they were thought to be open. The discovery of the true situation resulted in an ample supply of water from all the hydrants in that section.

SPECIAL STUDIES

The study of water supply, fire department operations, structural conditions and so forth, naturally resulted in the formulation of a "Standard Schedule for Grading Cities and Towns with Reference to Their Fire Defenses and Physical Conditions." The first step in the preparation of this schedule was the establishment of standards covering the items of leading importance. The classification of any given city is determined by the application of points of deficiency based upon the extent of variance from the standards, which were formulated after conditions in some five hundred cities had been minutely studied. The maximum number of deficiency marks amounts to five thousand and cities and towns are classified in grades running from one to ten, according to their standing. The application of this schedule has

been highly beneficial in bringing about improved conditions.

It has been noted in this connection that some cities have a tendency to develop water supply while neglecting their fire departments, or vice versa. Such deviations are disclosed by the schedule, since it has standardized the relative importance of the various factors, and if one gear in the fire fighting machine lags behind the others a deficiency charge is made until it is brought up to the average.

Another activity carried on by this committee is the standardization of hydrants and hose threads, a task which has made steady progress during recent years. The dangers of nonstandardization have been demonstrated upon many occasions, notably during the great Baltimore conflagration when many of the fire engines sent from other cities to assist in extinguishing the fire were unable to connect with the Baltimore hydrants.

Under this Committee's supervision come, too, the salvage corps operated in a number of the larger cities, their protective work benefiting the insured and uninsured alike.

One of the earliest activities which the Board proposed to carry out at the time of its organization was the suppression of incendiarism and arson, and a fund of \$100,000 was established by the member companies, so that the Board might offer rewards for the conviction of incendiaries. This plan remained in force until 1916 when a radical change was decided upon. Although the reward system had brought more than four hundred criminals to justice and doubtless acted as a deterrent in thousands of other cases, it was felt that the suppression of this despicable form of crime demanded more aggressive measures. Accordingly the work of the Committee was broadened so as to provide for a staff of investigators who

have since been waging a continuous war upon the "firebug" in all parts of the country. The Committee has educated police officials and district attorneys in different communities in the proper conduct of arson cases, thereby increasing the number of convictions, and has also worked for the unification of arson laws in the different states.

The numerous and diverging laws in the various states that pertain to fire underwriting, result in the need for constant legal advice and the Board's Committee on Laws looks after this phase of company operation. It studies important matters of legislation which otherwise would have to be cared for by each company separately. It also keeps track of court decisions, taxation and other matters of a legal nature.

The Board's Committee on Public Relations was organized in 1916, largely to supplement the technical work of the other committees by means of educational activities in furtherance of fire prevention, fire protection and fire insurance. It interprets to the public the technical work of the various other committees in terms understandable by the layman and thus promotes their aims and the public relations of the business by an extensive use of printers' ink and other media at its disposal. The Committee publishes a monthly bulletin entitled "Safeguarding America Against Fire," as well as numerous booklets and circulars and a manual of fire prevention instruction for the schools of the United States. It also circulates educational motion pictures and supplies articles to publications of various kinds, including daily newspapers.

It should be mentioned, as a matter of record, that the Board during the Great War rendered an invaluable service to the government by donating

the services of its engineers in the planning, erection and protection of cantonments, shipyards, hospital and supply bases and numerous other physical cogs of the war machine. It also organized an inspection service that resulted in the safeguarding of millions of bushels of wheat and other foodstuffs which were sorely needed at that time.

The Board, in addition, maintains the Underwriters' Laboratories, a unique scientific institution conducted for the purpose of laboratory tests upon articles, supplies and processes directly associated with fire hazard, fire prevention or fire fighting, all of which have a vital bearing upon public safety. In recent years it has also been testing devices for the prevention of accident and theft. It is operated for service and not for profit, the experiments being conducted at cost, and its thoroughness and integrity have made its labels as meaningful in its field as the mark of "Sterling" upon a piece of silverware.

The foregoing simply scratches the surface of the story of the service rendered by the stock fire insurance corporations through the National Board of Fire Underwriters, and, supplementing its activities, many of the companies maintain engineering staffs for the correction of hazards in the risks in which they are interested, the intent of such activity being the reduction of rates.

Clearly, fire prevention and fire insurance are closely allied, both because the underwriters are the prime movers in the national campaign of loss curtailment, and because the lessening of fire waste means the lowering of rates. In safeguarding industry and employment, fire prevention becomes a great force for the common welfare. Thus fire prevention assists the public's pocketbook besides enhancing its safety.

Use and Occupancy Insurance

By WILLIS O. ROBB

Manager, New York Fire Insurance Exchange

WHAT is called in the United States Use and Occupancy Insurance and is elsewhere in the world variously known as Profits Insurance, Consequential Damage Insurance, and Business Interruption Indemnity, is only about as old as the century, though the very first experiments in these directions date back thirty or forty years earlier. Of late there have appeared many tracts and pamphlets, articles and contributions in periodicals, experiments in policy forms and rules, and solutions of typical problems dealing with or involving this subject, or some of its branches. A bulletin issued in April, 1925, by the Insurance Society of New York listed nearly sixty titles dealing with the topic, and I judge that this is a mere selection from the whole body of the material in the society's files. Many of these articles are repetitions of each other, prepared for purely local reading or printing, and never intended for general publication. The program of an insurance society or association or the table of contents of an insurance journal in Liverpool, or New York, or Sydney, N. S. W., will almost always be found to have something on this subject. And until the time comes for the appearance of a standard treatise on Use and Occupancy, the searcher for information concerning it will find his task a tedious and confusing one. And that time is not yet. For the subject itself is being standardized but slowly, either in theory or in practice. At present much of the best work in this field is being done by adjusters and others examining into

the detailed features presented by typical Use and Occupancy losses, and endeavoring to secure such improvements of policy form and interpretation as will promote equity by extending the scope and flexibility of this form of coverage. This feeling-out of the subject must precede any effective philosophizing about it.

IMPORTANT EXCLUSIONS

Meantime, it will be worth while to examine the general outlines, the present development, and the apparent tendencies of this branch of insurance. And it will be necessary to begin with at least two important exclusions. In the first place, it is manifest that losses from interruption of business, as distinct from the destruction or damage of physical property, or the loss or injury of life or limb, may occur from many other causes than fire, some similar and others wholly dissimilar to that cause; and as is natural, such losses are being increasingly studied and provided for by various groups of underwriters, quite outside the fire insurance field. Explosion, earthquake, windstorm, hail, sprinkler leakage, collision, burglary, and the like, not to mention epidemics and miscellaneous catastrophies, may all entail consequential losses of the same general class as interruption of business, in addition to the direct physical and material damage they cause. But in this paper I am confining the use of the term Use and Occupancy Insurance to the coverage against interruption loss caused wholly by fire.

And in the second place, there are many other kinds of insurance against loss by fire that deal with losses as truly indirect or consequential or contingent—as truly non-physical, in other words—as what is commonly called a Use and Occupancy loss. Some of these differ widely from Use and Occupancy, while some are distinguished from it with difficulty, or merge insensibly into it, or have some features in common with it. Among these are Rents, Leasehold Interest, Improvements and Betterments, Profits, Excess Replacement Cost (due to municipal ordinances, etc.), Interruption of Refrigerating or Heating Service, and Garment Workers' Consequential Damage (depreciation caused by loss of some parts of the suits of a stock of clothing to the remaining value of the other parts, not affected by fire). Some of these, either by their names or from long and familiar usage among underwriters and the insuring public, are not likely to be confused with Use and Occupancy. Two or three may require to be "distinguished," as the courts would say. For instance, Rents and Rental Value are primarily the income from letting a property to be occupied by others, not the value to the owner for his own use. Leasehold Interest is the specific value of a building, either to occupy or sublet, over the reserved or stipulated rental payable to the owner—or, in other words, the profits on a lease. Profits Insurance, in a strict sense, is limited to the specific profit expected (and reasonably computable) on actual merchandise involved in a loss, and does not include the expected but indefinite profit from the future operation of a going business. The other four kinds of cover here listed take care of various kinds of loss to actual and material property which, though consequential in one or another sense, do not have

to do with duration of unoccupancy or untenantability.

From this brief summary it will appear that either Use and Occupancy or Business Interruption Indemnity is a better term for the contract under consideration than Consequential Loss or Profits Insurance, since, of the latter terms, the first is much too general and the second is at once too narrow, as seeming to leave out fixed charges, and at the same time too general, as including profits on destroyed finished merchandise, which are a proper subject for what is specifically called Profits Insurance. Personally, I think Business Interruption Indemnity the best of the terms in use, though not strictly expressive.

Having thus excluded all causes except fire, and all kinds of consequential or indirect loss, even by fire, except those due to interruption of the activities of a going concern, it will be in order to consider, necessarily with great brevity,

- (1) the elements or component parts of the Use and Occupancy coverage;
- (2) the restrictions and limitations under which it may be granted;
- (3) the method of computing the rate for such a contract; and
- (4) the apparent tendencies of this branch of the insurance business.

(1) In general, the elements of a Use and Occupancy loss are, (a) the net profits on the business prevented by the fire, (b) the fixed charges and expenses that the insured must continue, or that a prudent man so situated would continue, during a total or partial suspension, and (c) what the English call "increased cost of working" but what in American forms is more narrowly described as "expenses incurred for the purpose of reducing the loss."

RESTRICTIONS AND LIMITATIONS

(2) It is easy enough to understand, and to approve, the inclusion of these three component factors in the coverage of such a policy. But to get a "close-up" of the contract takes a little effort. For instance, some authorities allow, and some forbid, the omission of any one of these three subjects of insurance, and some even allow the policy to be limited to a named few of the fixed or standing charges and for a named limit of either time or amount. Again, it is customary to limit this fixed charge item by the words "to the extent only that such fixed charges and expenses would have been earned had no fire occurred"; and "the increased cost of working," or "expense incurred for the purpose of reducing the loss" by the words, "for not exceeding such time as shall be required, with the exercise of due diligence and despatch, to rebuild, repair or replace," etc. And the whole coverage, in the more ordinary non-coinsurance and per diem form of policy, is limited to the actual loss sustained, not exceeding $1/300$ (or $1/365$) of the policy amount, "due consideration being given to the experience of the business before the fire and the probable experience thereafter." No period during which this previous experience is to be collated is specified, nor is the continuance of the period of indemnification fixed, except by the fact that it would take a year to exhaust the insurance at the named per diem; and if a longer period of continued payment is desired it can be had by increasing the insurance and reducing the per diem fraction. This fraction, however, cannot be increased and thus a shorter period of total suspension liability than one year set up. The per diem liability in case of partial suspension is pro-rata of

what it would be in case of total suspension. An additional premium is charged for extending the term of liability for interruption to cover the need of replacing raw stock and stock in process beyond the time required for replacing building and machinery; but of course there is no liability for property loss on stock of any kind.

But there is another kind or method of limitation that is extremely important, and as to the use of which there is great diversity of view and practice. That has to do with the feature variously covered by pro-rata, coinsurance or average, and valuation clauses respectively. The form I have just summarized or culled from is the so-called per diem form, under which the liability for loss from interruption is limited to $1/300$ or $1/365$ of the amount of the policy, for each day of such interruption. A modification of this form substitutes a weekly for a per diem rate of pay, at $1/52$ of the policy amount for each week of interruption; and this gives a little better indemnity to the insured, because it adjusts itself better to cases where considerable day-to-day, but a less considerable week-to-week, variation in the output or turnover is characteristic. In neither of these is any coinsurance or average feature present. But there is also a coinsurance form that leaves out the per diem or weekly measure of indemnity and makes the company liable for such portion of any interruption loss as its policy amount constitutes of the value of the annual use and occupancy. This is usually still more favorable to the insured, or perhaps more unfair to the company, because a fire coming at a time of "peak" business may exhaust a large proportion of the policy in a comparatively brief interruption. And finally, there is the straight

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"valued" form which pays a named sum per day (not a named fraction of the policy) for each day of total interruption, without requiring any showing as to the amount of the actual loss, and a pro-rata of that sum for each day of partial interruption.

METHOD OF COMPUTING RATES

(3) As to rating for Use and Occupancy insurance, that is a subject involved in confusion, if not in chaos. None of the English authorities that I have seen throw any light on the English practice, and in this country the less light thrown upon it the better. In general, the rate for the per diem non-coinsurance form for mercantile or non-manufacturing risks is based on a percentage of the eighty per cent coinsurance building rate, or of the average between that and the corresponding contents rate, according to the cover of the policy; an increase being charged for the weekly form and a greater increase for the coinsurance form. For manufacturing risks a special schedule has been evolved, though that also is based on building and or contents fire rates, with special charges and allowances for greater or less difficulty of replacement of domestic and imported machinery, etc.

APPARENT TENDENCIES IN USE & OCCUPANCY INSURANCE

(4) As to the tendencies in this field of insurance, the following appear to me to be visible:

(a) The demand for this insurance, and for its clearer demarcation from other forms of cover, will steadily grow and its importance in the insurance and the commercial world will increase.

(b) The effort to standardize forms, as is being done in the East under the direction of the Uniform Rules and Clauses Committee of the so-called

Eastern Union, and in the West by the Western Actuarial Bureau, seems to me likely to break down. Already there are eight approved or standardized forms and two or more riders for each duly promulgated, with the valued policy in several forms apparently yet to come. The eight forms at present outstanding are entitled as follows:

Per Diem Form No. 1, for Manufacturing Plants in Steady Operation.

Per Diem Form No. 2, for Mercantile or Non-Manufacturing Risks in Steady Operation.

Weekly Form No. 3, for Mercantile or Non-Manufacturing Risks in Steady Operation.

Per Diem Form No. 4, for Manufacturing Plants Having Seasonal Operations or Fluctuating Earnings.

Per Diem Form No. 5, for Mercantile or Non-Manufacturing Risks Having Seasonal Operations or Fluctuating Earnings.

Weekly Form No. 6, for Mercantile or Non-Manufacturing Risks Having Seasonal Operations or Fluctuating Earnings.

Coinsurance Form No. 7, for Manufacturing Plants; Steady or Seasonal Operations, or Fluctuating Earnings.

Coinsurance Form No. 8, for Mercantile or Non-Manufacturing Risks, Steady or Seasonal Operation, or Fluctuating Earnings.

In addition, there are rider forms to cover stock in process, attachable to Forms Nos. 1 and 4, and special forms for Use and Occupancy policies covering lightning and electrical exemption clause, etc. And still the demand that each important risk be allowed to have its own policy form drawn to fit its own needs and circumstances is steadily growing. Practically, that is and has long been done in England. The popular demand for its introduction in this country will meet with strong resistance because of the need under the laws of most of the states to make like rates for like risks and covers, and of the difficulty of varying the Use

and Occupancy rates of all imaginable varieties and limitations of cover. It may be that a common rate or method of rating can be established for all risks of the same general class of Use and Occupancy cover, regardless of minor differences. At any rate, I am inclined to think the standard Use and Occupancy forms must go, or be reduced to a limited use, or very generally modified, as need may be.

I hope and believe the good sense of underwriters, property owners, and state insurance department officials and legislators will drive out of use entirely the valued form of Use and Occupancy policy. It is theoretically unsound, violative of the great principle of strict indemnity, and productive of moral hazard. To be sure, it is easy to interpret, but that is its sole merit and that merit does not offset its general viciousness. Only the New England Mutuals use it extensively and with fairly satisfactory results, but the character of their membership is such as to reduce moral hazard features to a minimum, and this is a condition not to be duplicated in general business. The English underwriters, barring those inveterate gamblers, the Lloyds, have of late years tended more and more to abandon the use of all manner of valued policies.

UNSUITABILITY OF THE STANDARD FIRE POLICY

One rather fundamental difficulty about the Use and Occupancy problem in this country must be stated here. There is a very grave doubt whether the type of Standard Fire Policy, of which that prescribed by law in New York State is the best known, can be used as a basis for the insurance of Use and Occupancy at all. A former Superintendent of Insurance of the State of New York, the late Honorable

William T. Emmett, stated that he was convinced that the Standard Fire Policy was not intended and could not legally be used for any of the typical forms of policy dealing with contingent or consequential losses, rather than direct property damages; as, for instance, Use and Occupancy, rents, profits, leasehold interest, etc. In practice, this opinion has never been followed or relied upon, but a good deal may be said in its favor. For example, to limit our inquiry to Use and Occupancy, it is to be noted that the Standard Fire Policy in good set terms seems to forbid the payment of the kind of loss which is the exclusive concern of Use and Occupancy Insurance. The Policy says that the (named company) "does insure" (the name of the insured) "against all direct loss and damage by fire . . . (for the named term) to the following described property located," etc.; "to the extent of the actual cash value . . . of the property at the time of loss or damage, . . . without compensation for loss resulting from interruption of business or manufacture." That would seem to exclude altogether the possibility of covering Use and Occupancy on such a statutory form of contract.

The practical conclusion reached, however, has been that this restriction merely forbids the inclusion in the computation of a direct property loss of any interruption loss as a part thereof, but without meaning to prohibit, and without effectually prohibiting, in fact, the specific assumption of loss from interruption as a major subject of insurance; so that it has been deemed safe to attach to the Standard Fire Policy blank special policy forms or a series of riders expressly devised for the assumption of Use and Occupancy liability, and to a considerable extent superseding the general provisions of the Standard Policy, intended

for property insurance, with others more specifically applicable to insurance against interruption of business.

It is probable that there should also have been introduced a provision for the payment of Use and Occupancy losses by instalments where the extent of interruption may be identified by the insured's records, and perhaps also that a more particular method of handling appraisals or arbitrations and one more suitable to the nature of the loss, should likewise have been inserted. The English custom appears to be to issue business interruption policies on a form that is not in any respect a regular fire policy, and to make the adjustment depend almost exclusively upon the adjustment reports of chartered accountants who are called upon to examine the insured's records from time to time after the fire and until the full restoration of the regular volume of business has been

attained, with a further provision that upon the successive reports of these accountants instalment payments of the loss will be made. Undoubtedly, it is a more clean-cut and satisfactory way of treating this kind of contract, but the difficulties in the way of having a considerable number of different standard forms of policy prepared for use in the different kinds of Consequential, Contingent, or Indirect Loss Insurance, have operated to prevent the adoption of the English model and practice in this country. Perhaps, however, it may be said that we are more English than the English in applying to this case the good old English practice of getting along with an old and unsuitable form of language rather than embark on the hazardous search for a new form which, though theoretically better, may develop unexpected practical disadvantages of its own.

The Regulation of Fire Insurance Rates

By ROBERT RIEGEL, PH.D.

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I. REVIEW OF FIRE INSURANCE RATE LEGISLATION

IN an article published in 1917¹ the author traced the development of state legislation for the regulation of fire insurance rates and made a survey of the existing laws. The chief purpose of this article was to describe the economic services rendered by fire underwriters' associations which are largely instrumental in ratemaking and to show the total lack of any comprehensive theory for the regulation of this large and specialized business. The history of judicial decisions demonstrated that the common law was inadequate as a method of regulation² and that anti-trust statutes, which were and are plentiful, had in numerous cases been held inapplicable to fire insurance.³ A number of states, however, then had and still retain on the statute books "anti-compact" laws, which specifically forbade insurance companies from (to use a common phraseology) "forming any combination or agreement for the purpose of regulating or fixing the price or premium to be paid for insuring property

against loss or damage by fire." Any doubt as to the efficacy of such laws was speedily resolved by decisions affirming the states' right to exercise this power.

It was evident in 1917 from the economic history of combination in the railroad and industrial fields that laws of the above types were inadequate in conception and effect and that, furthermore, they were illogical in principle when applied to the insurance business, the very essence of which is co-operation and not competition in prices. An effort was made to exhibit the contradictions and absurdities which were created by legislation often destined to lie unenforced on the statute books but sometimes brought forward in acrimonious disputes which merely served to temporarily deprive citizens of insurance protection.

There was gradually evolving at that time, however, a type of law which recognized or even specifically authorized co-operative effort in the making of rates, and it appeared questionable whether this or actual price fixing by the state itself would be the policy generally adopted. In Texas in 1910 a law had been passed which gave the state Insurance Commission power to fix, determine and promulgate the rates of premium to be charged and collected and to prescribe uniform policies and forms to be used.⁴ Between then and 1917 there arose considerable agitation for similar laws in other states and it remained to be seen whether the example set in Texas would be followed elsewhere. After the lapse of ten years it

¹ "Rate-making Organizations in Fire Insurance," *The Annals of the American Academy of Political and Social Science*, Vol. LXX, March, 1917.

² For references see the article in question and also Robert Riegel, "Fire Underwriters' Associations in the United States," *Chronicle Co.*, N. Y., 1915, pp. 53-55.

³ Because the anti-trust law ordinarily is applicable to "trade," "commerce," "dealings in commodities," etc., and insurance was held not to be included within the scope of such expressions. For citations of these cases see "Fire Underwriters' Associations in the United States," pp. 55-56.

⁴ Statutes of Texas, 1920, Secs. 4876-4904.

is possible to answer this question and a recent abstract of state laws⁶ enables a comparison between the status of legislation in 1917 and at the present date.

II. OUTLINE OF EXISTING LEGISLATION

The following table shows approximately the legislative situation of the present and the past, with respect to fire insurance rating. The table prepared in 1917 for the article referred to has been brought down to 1926, by adding in *italics* the new laws emanating since 1917 and indicating the repeal of laws by brackets. It is difficult to convey a precise picture of such a broad subject, involving forty-six jurisdictions, in a table. This may be illustrated by one or two concrete instances. The statutes of a state may not contain any provision which in so many words prohibits discriminations in rates and yet may confer power on the insurance superintendent to revise unreasonable rates, which might seem to include the power to remove discriminations. Some states have on the books at the same time anti-trust statutes forbidding combinations to fix prices or even anti-compact laws forbidding insurance companies to combine to fix insurance rates and yet at the same time have statutes permitting the formation of rate-making bureaus or rating services. Presumably the latter are supposed to nullify the former. It is also difficult to ascertain what laws are repealed because they simply, as it were, disappear unnoticed while new laws are apt to attract attention.

In Column A are given both the anti-compact and anti-trust laws, the latter being indicated by (T). The former are laws which forbid combinations or

⁶ C. W. Hobbs, "State Regulation of Insurance Rates," Proceedings of the Casualty Actuarial Society, Vol. XI, Part II, No. 24, pp. 218-275.

agreements to fix rates of premium, mentioning insurance by name. The latter are laws forbidding combinations in restraint of trade, or commerce, to control the price of commodities or to prevent competition, insurance not being specifically mentioned. Column B⁶ shows the states in which there is an act prohibiting discrimination in rates, not including so-called anti-rebate laws which prohibit agents from returning to purchasers of insurance any portion of their commission for writing the business. These laws are designed to prevent insurance companies from favoring individuals by writing insurance on risks of substantially the same hazard at different rates. Column C⁷ shows the various state acts permitting agreements between companies relative to rates or the formation of rating bureaus or the employment of common rating agencies. Column D indicates the existence of acts which require companies to be members of a rating bureau and recognize such bureaus. Column E shows states in which the commissioner of insurance or other authority may make examination of rating bureaus or other methods of making rates. Column F contains the states having state rating laws. Column G enumerates the states in which the superintendent or other state authority has power to order revisions in rates, other than the mere removal of discriminations.

The table follows, but the average reader will probably prefer to examine the paragraphs succeeding the table, which summarize verbally the principal changes in legislation which have occurred.

⁶ The columns are placed in an order differing from the table in the earlier article.

⁷ This column, unlike others, is not an exclusive classification, because it includes not only states which *permit* but those which *require* co-operative action.

A	B	C	D	E	F	G
Ala. (T)	<i>Ala.</i>	....	....	....	....	....
Ariz.	<i>Ariz.</i>	....	....	....	....	....
Ark.	<i>Ark.</i> ⁸	<i>Ark.</i>	....	<i>Ark.</i>	....	<i>Ark.</i>
.....	<i>Cal.</i>	....	....	....	....	....
Col. (T)	<i>Col.</i>	<i>Col.</i>	<i>Col.</i>	<i>Col.</i>	....	<i>Col.</i>
Conn. (T)	<i>Conn.</i>	....	....	....	....	....
Fla. (T)	<i>Fla.</i>	....	....	....	....	....
Ga.	<i>Ga.</i>	....	....	....	....	....
Idaho (T)	<i>Idaho</i>	<i>Idaho</i>	....	<i>Idaho</i>	(<i>Idaho</i>)	....
Ill. (T)	....	....	....	....	....	....
Ind. (T)	<i>Ind.</i>	<i>Ind.</i>	<i>Ind.</i>	<i>Ind.</i>	....	<i>Ind.</i>
Iowa	(<i>Iowa</i>)	....	(<i>Iowa</i>)	(<i>Iowa</i>)	....	(<i>Iowa</i>)
Kan.	<i>Kan.</i>	....	....	<i>Kan.</i>	....	<i>Kan.</i>
.....	<i>Ky.</i>	<i>Ky.</i>	<i>Ky.</i>	<i>Ky.</i>	....	<i>Ky.</i>
La.	<i>La.</i>	....	....	....	....	....
Me. (T)	<i>Me.</i>	....	....	....	....	....
.....	<i>Md.</i>	....	....	....	....	....
Mass. (T)	<i>Mass.</i> ⁹	....	....	....	....	....
Mich.	<i>Mich.</i>	<i>Mich.</i>	....	<i>Mich.</i>	....	<i>Mich.</i>
Minn. (T)	<i>Minn.</i>	<i>Minn.</i>	<i>Minn.</i>	<i>Minn.</i>	....	<i>Minn.</i>
Miss.	<i>Miss.</i>	<i>Miss.</i>	<i>Miss.</i>	<i>Miss.</i>	....	<i>Miss.</i>
Mo.	<i>Mo.</i>	<i>Mo.</i>	....	<i>Mo.</i>	....	<i>Mo.</i>
Mont. (T)	<i>Mont.</i>	....	....	....	....	....
Neb.	<i>Neb.</i>	....	....	....	....	....
N. H. (T)	....	....	....	....	....	N. H.
N. J. (T) ¹⁰	....	....	....	....	....	....
N. Mex. (T)	<i>N. Mex.</i>	....	....	....	....	....
N. Y. (T)	<i>N. Y.</i>	<i>N. Y.</i>	....	<i>N. Y.</i>	....	<i>N. Y.</i>
N. C. (T)	<i>N. C.</i>	<i>N. C.</i>	....	<i>N. C.</i>	....	<i>N. C.</i>
N. D. (T)	<i>N. D.</i>	....	....	....	....	....
Ohio	<i>Ohio</i>	<i>Ohio</i>	<i>Ohio</i>	<i>Ohio</i>	....	....
Okla. (T)	<i>Okla.</i>	(<i>Okla.</i>)	....	<i>Okla.</i>	....	<i>Okla.</i>
Ore.	<i>Ore.</i>	<i>Ore.</i>	....	<i>Ore.</i>	....	....
.....	<i>Pa.</i>	<i>Pa.</i>	....	<i>Pa.</i>	....	....
.....	<i>R. I.</i>	....	....	....	....	....
S. C.	<i>S. C.</i>	<i>S. C.</i>	....	<i>S. C.</i>	....	<i>S. C.</i>
S. D.	<i>S. D.</i>	<i>S. D.</i>	....	<i>S. D.</i>	....	....
Tenn.	....	....	....	....	....	....
Tex.	<i>Tex.</i>	....	....	....	<i>Tex.</i>	....
Utah (T)	....	....	....	....	....	....
.....	<i>Vt.</i>	<i>Vt.</i>	....	<i>Vt.</i>	....	<i>Vt.</i>
.....	<i>Va.</i>	<i>Va.</i>	<i>Va.</i>	<i>Va.</i>	....	<i>Va.</i>
Wash.	<i>Wash.</i>	<i>Wash.</i>	....	<i>Wash.</i>	....	....
.....	<i>W. Va.</i>	<i>W. Va.</i>	....	<i>W. Va.</i>	....	....
Wisc. (T)	<i>Wisc.</i>	<i>Wisc.</i>	<i>Wisc.</i>	<i>Wisc.</i>	....	<i>Wisc.</i>
.....	<i>Wyo.</i>	<i>Wyo.</i>	<i>Wyo.</i>	<i>Wyo.</i>	....	<i>Wyo.</i>

⁸ Law requires all rates made under the same schedule to be uniform.

⁹ A board constituted to hear cases and make recommendations—enforcement depends on public opinion.

¹⁰ The courts have held combinations of insurance companies illegal.

III. ANTI-TRUST AND ANTI-COMPACT LAWS

In the ten-year period from 1917 to 1926 very little change has taken place in that group of laws designated as anti-trust or anti-compact laws, as may be seen from Column A in the accompanying table.¹¹ The only addition to the 1917 list of such statutes is Ohio, which provides that any member of a combination to control rates or commissions to agents is subject to revocation of its license, although agents may be co-operatively employed to examine buildings, suggest protective and preventive measures and to estimate the relative hazard of risks. On the other hand there has been no diminution in the number of such laws, there being at present twenty anti-trust statutes which do not specifically mention insurance and sixteen anti-compact statutes, which name insurance as included. In fifteen instances the state apparently gives with the left hand what it takes away with the right, displaying the apparent anomaly of anti-trust or anti-compact laws forbidding combinations and at the same time statutes which permit or require insurance companies to be members of a rating bureau. Whether it was intended that the latter statutes should remove insurance companies from the penalties of the former statutes or not is mere conjecture.

IV. STATE RATING LAWS

The only law which now exists vesting authority in the state to originally make the rates at which insurance may be written is that of Texas,¹² conferring the power upon an Insurance Commission composed of the Commissioner of Insurance and two members appointed by the Governor. This body has the power to fix and promul-

gate the rates to be used by all companies, with the proviso that such rates must be reasonable and that thirty days' notice of changes must be given. Where risks are not rated by the state they may be written by the companies at their own rates. The policies and forms used may be prescribed by the Commission and the companies must file a report of the rate charged on each risk written. No state has followed the example of Texas since 1917 and the law of Idaho, which was of substantially similar intent, has been repealed. It is evident that the state rating law is not generally considered a satisfactory remedy for the evils in fire insurance rating.

V. LAWS AGAINST DISCRIMINATION

If state rating does not meet with approval on the one hand and free competition is not enforced on the other, the only middle ground is regulated co-operation. Thus state laws were passed which prohibited discrimination (1) between risks of the same class or (2) between risks of similar hazard or (3) in the application of schedules of charges and credits. These statutes ordinarily give the insurance commissioner power to order the discriminations removed. In Massachusetts a board is constituted to hear cases and make recommendations and public opinion is relied upon to enforce the conclusions. Such laws have become increasingly general in the past ten years, nineteen states having added them to the statute books. Their necessity appears to become recognized in inverse proportion to their usefulness, for under previous conditions of unrestrained competition they were very valuable and the evils of unrestrained competition in rates have now been considerably reduced. In other words such laws are now harmless but seldom required.

¹¹ See table on p. 116.

¹² Statutes of Texas, 1920, Secs. 4876-4904.

VI. RATE REGULATION LAWS

The laws prohibiting discrimination, however, naturally led to an extension of state regulation. In order to effectively prevent discrimination it is necessary to regulate the classification of risks by requiring that methods of making rates, schedules, etc., be filed; to make public the knowledge of the rates which apply to all risks by requiring the filing of rates; to provide for investigation of discrimination in the form of hearings by insurance commissioners or boards and to give state authorities power to enforce removal of discriminations. Such statutes naturally divide themselves into three groups with reference to their severity.

A. Revision of Rates by State Officials.—The first group includes those states which empower the superintendent of insurance or board to compel the revision of rates filed by insurance companies, without stipulating any recognized method of originally arriving at the rates except to prohibit discrimination. Thus the companies may purchase their rates from an "independent" rater, agents and brokers may form associations for the purpose of co-operatively making rates or companies may establish rating bureaus. This form of regulation originated in New Hampshire in 1899, and had tended to disappear by 1917, only two states following the system at that time and in 1926 the 1917 statutes had disappeared but two newer laws had taken their places.

B. Laws Permitting the Establishment of Rating Bureaus.—The second group of laws comprises those which permit and authorize the establishment of rating bureaus or permit the formation of agreements to make rates, which results either in a rating organization which sells rates to the companies or

an association of agents or companies which makes the rates. In 1917 there were four such laws on the statute books and by 1926 this type of law had been adopted by thirteen states. It constitutes one of the two types of legislation whose popularity is growing. Of the thirteen states where this form of regulation now exists, six have laws which appear to give the superintendent little or no power over the revision of rates. Of these six, two (South Dakota and West Virginia) are substantially alike and provide:

- (1) That rating bureaus are recognized by law.
- (2) That the insurance commissioner shall have power to examine such rating bureaus.
- (3) That the insurance commissioner may require companies to file underwriting rules, schedules, rates of premium and forms used.
- (4) That the insurance commissioner may investigate general advances or reductions in rates and approve or disapprove the same, subject to court review.

In four other states (Idaho, Oregon, Pennsylvania and Washington) the law is substantially the same except that, on paper at least, the commissioner has less power with respect to disapproval of rates.

In seven states the laws provide for all of the above and in addition give to the superintendent or an insurance board power to disapprove unreasonable or excessive rates and fix reasonable ones. Of these, three statutes (Arkansas, New York and South Carolina), are substantially similar and provide:

- (1) That rating bureaus are recognized by the law.
- (2) That the insurance commissioner has power to examine such rating bureaus.

(3)

(4)

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- (3) That the companies and bureaus are required to file underwriting rules, schedules, rates of premium and forms used.
- (4) That the commissioner may hold hearings to investigate alleged discriminations and order discriminations removed.
- (5) That the commissioner may investigate rate agreements and disapprove the same, subject to review by the courts.
- (6) That the commissioner may order general reductions in rates if, during the preceding five years, the stock companies show an underwriting profit of five per cent on business within the state.

In four other states (Michigan, Vermont, Missouri and North Carolina) the laws are almost identical, but the provision regarding revision of rates does not allude to the experience of the preceding five years and merely refers to unreasonable or excessive rates.

Included in this group is New York, which has the most complete law on the statute books and receives some description later.

C. Laws Requiring the Establishment of Rating Bureaus.—Of those states which have enacted rate regulation laws, a third group of nine states actually require the insurance companies to form rating bureaus and to be members thereof. There were only three such laws in 1917 and by 1926 the number had increased to nine, this type of legislation thus showing a very great relative increase. These laws are all practically identical in character. Also, with the exception of the statute in Ohio, they all provide for the revision of rates by the insurance commissioner or other state authority. Except for this latter difference they are substantially the same as the laws which merely permit the formation of bureaus, and therefore

require no further comment except to point out that this type of legislation is a startling contrast to the laws prohibiting combination which were formerly so popular and that they virtually nullify anti-trust and anti-compact laws, although the latter in nearly every instance remain on the statute books. Taken together the laws *permitting* bureaus and *requiring* bureaus show an increase from seven to twenty-two during the period under review.

D. Outline of the New York Law.¹³—

By the New York law fire insurance companies and agents are permitted to become members of rating organizations or bureaus, which organizations are required to admit to membership without discrimination all persons authorized to transact fire insurance in the state. No person, association or corporation, however, shall be a member of more than one organization for the purpose of rating the same hazards, and members of organizations are required to comply with all the rates and rules promulgated by the organization.

Every such rating organization which suggests or approves rates to be used by more than one underwriter must furnish to the superintendent of insurance a list of members and a description of its organization, together with such other information as the superintendent may deem desirable and is subject to visitation and examination by the insurance department. The organization or bureau must not refuse to do business with any broker licensed by the state unless the latter refuses to abide by the reasonable rules of the organization. It is also required to keep complete records of its proceedings and to furnish to the insured or his representative upon request information respecting the manner in which his rate was arrived at.

¹³ Laws of 1922, Secs. 141, 141-a.

All such organizations must file with the superintendent of insurance the rates and rating plans which are in use, and the rates filed must not (a) be discriminatory or (b) require the placing of the entire amount of insurance with members of the organization. The superintendent of insurance may, after a hearing, order the removal of discriminations, subject to review by certiorari order in the supreme and appellate courts of the state. The act requires that the rules, schedules and methods of rating shall be reasonable, and the rates are to be either minimum class rates, schedule rates or (in the discretion of the superintendent) non-schedule flat rates. No member may write insurance, except under the rules and rates of the organization of which he is a member, but upon thirty days' notice any company may, subject to the approval of the superintendent, charge rates which are a uniform percentage higher or lower than the organization rates.

Every underwriter transacting a fire insurance business in the state is required to file annually with the bureau of which he is a member, a statement of premiums written and losses incurred for the information of the insurance department. The superintendent of insurance may hold hearings to investigate rates and may require an adjustment of same whenever the profit derived over a period of five years preceding is "excessive, inadequate, unjust or unreasonable," subject to review by the courts as described previously.

It will be noted that this law contains the following essential features:

- (1) It authorizes the formation of rating bureaus.
- (2) It enables such bureaus to enforce their reasonable rules and rates.
- (3) It prohibits discrimination by such bureaus among insureds' agents and brokers.
- (4) It makes such bureaus and their acts and records subject to examination by the insurance department.
- (5) It gives the superintendent of insurance power to revise rates.

VII. LAWS AUTHORIZING EXAMINATION OF RATING BUREAUS

All of the rate regulation laws permitting or authorizing the establishment of rating bureaus give the insurance commissioner power to examine the operation of such bureaus, so that the number of states authorizing such examinations has increased from twelve to twenty-four.

VIII. CONCLUSION

The foregoing survey of legislation seems to indicate that the present-day tendency is to enact laws which encourage the promulgation of rates arrived at by mutual agreement and co-operation, thus recognizing that price competition is not a satisfactory guiding principle in the regulation of insurance, due to the inherent nature of the business. The New York statute, although merely permitting the formation of rating bureaus, is the most complete and comprehensive law on the statute books and it is difficult to see how other states which permit the formation of rating bureaus can avoid adding to their statutes additional provisions similar to those of New York.

Weather Forms of Insurance

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THE term "weather insurance," when used, usually refers to rain insurance. It covers loss of income and/or expenses occasioned by rain and other precipitation when measured as rainfall and is written on any one of a number of forms. From the title of this paper—"Weather Forms of Insurance"—one might be led to believe that it relates only to rain insurance. The term instead is used in a broader sense. It will, therefore, be in place at the outset to define and outline its limits.

Weather forms of insurance are here used to include those contracts which insure against loss occasioned by the action of one or more of the various elements composing the atmosphere. Tornado insurance is one such form; hail insurance is another. Included under this general heading, also, are rain insurance, frost and freeze insurance, and crop insurance. By broadening the use of the term considerably one might include flood insurance since indirectly the damage may relate to the weather. Still more distantly related is earthquake insurance. These two last named types of insurance are not distinctly and entirely related to elements of the weather, however, and should not therefore be included in the group. The lightning hazard is distinctly a weather risk though it is not considered here because it is seldom written as a separate form.

There are then five types of weather insurance: tornado or windstorm, hail, rain, frost and freeze, and crop. Each

of these forms, to be scientifically written, requires a knowledge of the frequency and intensity of one or more of the various types of atmospheric action. They find a common basis in the science of meteorology. Hail, frost and crop insurance are related, also, in being agricultural forms of insurance covering growing crops. In addition, these three forms of insurance together with rain insurance indemnify for loss of prospective income or for expenses incurred. The tornado or windstorm contract insures against damage done to property already in existence. These points of similarity and contrast will be more evident in a separate consideration of each form and will be summarized in a later section.

I. TORNADO INSURANCE

Of the five types of weather insurance, tornado ranks first, judged by total premiums for the year 1925. Tornado insurance might be more appropriately called windstorm insurance since in its usual form it covers loss occasioned by wind, whether of a local character such as tornadoes and local windstorms, or of a widespread character including cyclones and hurricanes. This form of insurance is known to have been written as far back as 1861,¹ though it has developed into an important "side-line" only within the last fifteen years. Figures annually published by the Spectator

¹ Hoffman, F. L., *Windstorm and Tornado Insurance*, Spectator Co., 1902.

Company² indicate that total premiums received by all reporting companies did not reach the \$1,000,000 level until 1908 and for losses paid until 1912. For the year 1912, premiums jumped to \$4,667,000, an increase of 150 per cent over that of the previous year and losses increased to \$1,870,000 or 265 per cent above the previous year. Table I has been prepared to show the growth of this line of insurance during the past fifteen years. For the year 1925 total premiums received for tornado insurance amounted to nearly \$40,000,000, which places this type of insurance fourth among the various forms covering property damage, being exceeded only by fire, motor vehicle, and ocean marine insurance.

proportions of importance only within the last fifteen years. Prior to the year 1912 the total amount of insurance written by joint-stock, mutual and state funds combined amounted to less than \$50,000,000.³ Premiums received from all classes did not reach the \$5,000,000 level until 1914. Since 1914, through a somewhat irregular growth, premiums have increased to an amount probably in excess of \$20,000,000. Table II has been compiled to illustrate this growth from 1912 to and including the year 1925.

In the preparation of Table II, reliable and comprehensive data for the years 1912 to 1919 inclusive were obtained from the United States Department of Agriculture. For subsequent

TABLE I—PREMIUMS AND LOSSES ON TORNADO INSURANCE IN THE UNITED STATES, 1911-25*
(In thousands of dollars, i.e. 000 omitted)

Year	Premiums	Losses	Year	Premiums	Losses
1911.....	\$1,805	\$512	1918.....	\$12,764	\$5,112
1912.....	4,667	1,870	1919.....	16,508†	4,471†
1913.....	4,620	1,401	1920.....	21,602	7,235
1914.....	6,745	2,667	1921.....	17,888	6,335
1915.....	6,295	2,523	1922.....	22,457	7,376
1916.....	7,427	2,200	1923.....	28,663	9,967
1917.....	13,568	4,844	1924.....	32,653	15,691
			1925.....	39,162	15,215

* Compiled from figures given in *Distribution by States of Fire Insurance* prepared and published annually by the Spectator Company, New York City. This company has also published since 1919 another compilation of premiums and losses on tornado business in their *Insurance Yearbook*. In the *National Underwriter* has been published a summary for several years. These compilations vary considerably for certain years, notably in 1920 and 1923. The series shown in Table I was chosen because it extends over a longer number of years than the other tabulations.

† From *Insurance Yearbook*, Spectator Co., 1920.

II. HAIL INSURANCE

Second in importance among the weather forms is hail insurance. It covers damage to growing crops, principally grain, occasioned by hail. Its history in the United States dates back to 1880 though it has assumed

years the figures used were those compiled for the *National Underwriter* and appearing in its annual "Hail and Tornado Insurance Number," and while they include the experience of a large number of companies they are not as comprehensive as the figures for the

² Spectator Company, *Distribution by States of Fire Insurance*, New York, (annual).

³ Valgren, V. N., *Hail Insurance on Farm Crops in the United States*, United States Department of Agriculture, Bulletin No. 912.

TABLE II—PREMIUMS AND LOSSES ON HAIL INSURANCE IN THE UNITED STATES, 1912-25 *
(In thousands of dollars, i.e. 000 omitted)

Year	Joint-Stock Companies		Mutual Companies †		State Funds		Totals	
	Premiums	Losses	Premiums	Losses	Premiums	Losses	Premiums	Losses
1912.....	\$1,640	\$996	\$1,474	\$713	\$65	\$105	\$3,179	\$1,814
1913.....	1,773	696	1,418	503	27	28	3,218	1,227
1914.....	3,213	1,663	2,317	976	28	38	5,558	2,677
1915.....	6,395	8,239	2,691	3,057	21	25	9,107	11,321
1916.....	8,185	7,565	1,741	1,145	33	79	9,959	8,789
1917.....	8,003	4,212	2,292	1,000	119	79	10,414	5,291
1918.....	12,854	7,771	3,614	2,127	576	1,030	17,044	10,928
1919.....	19,460	7,895	4,775	2,060	6,095	4,538	30,330	14,493
1920.....	16,910	9,755	2,678	1,532	5,777	5,037	25,365	16,324
1921.....	13,426	9,071	2,220	1,081	7,200	3,540	22,846	13,692
1922.....	10,422	7,770	2,271	1,913	6,061	4,858	18,754	14,541
1923.....	11,919	11,059	1,893	996	5,189	5,184	19,001	17,239
1924.....	9,831	8,372	580	445	4,218	4,065	14,629	12,882
1925.....	14,741	9,922	1,663	1,093	2,342	1,955	18,746	12,970

* For the years 1912-19, data supplied by the United States Department of Agriculture. For the years 1920-25, data from the *National Underwriter*, hail and tornado numbers.

† The mutual company figures for the years 1912-14 probably include some Canadian hail business, though not for later years. In certain years for mutuals and also for state insurance hail funds, losses were prorated. As far as could be determined the figures given are losses incurred rather than losses paid.

earlier years. The Spectator Company in its *Insurance Yearbook* also makes an annual compilation of hail "premiums and losses for stock fire and marine companies" which for the year 1925 gives a total of \$17,139,395 premiums received and \$11,130,835 losses paid. The Weekly Underwriter in its *Insurance Almanac* also publishes an annual compilation for stock companies which for the year 1925 amounted to \$16,602,800 and \$10,321,736 for premiums and losses respectively. These last two sources for joint-stock companies are more comprehensive for the year 1925 and indicate that total premiums received from all three sources, joint-stock, mutual and state fund, exceeded \$20,000,000.

III. RAIN INSURANCE

The Eagle, Star and British Dominions Insurance Company was the first

company to write rain insurance in the United States. It began writing in England in 1919 and in the United States in 1920.⁴ Lloyd's of London had, however, written this line as one of their numerous specialties for many years. In 1921 there were three companies writing and in 1925 the number had reached thirty. Table III has been prepared to show the growth of rain insurance up to and including the year 1925. For the years 1923, 1924 and 1925 the data were supplied by the Rain Insurance Association and include all of the companies writing rain insurance in the United States. It should be pointed out that the figures for Table III do not include business written by Lloyd's. No information is to be had concerning their writings,

⁴ DeWitt, C. L., "Weather Insurance" in "Special Lines" Lectures, the Insurance Society of New York, 1923.

which may have been considerable, particularly for the years 1924 and 1925. For the years 1922 and 1921 estimates only are available which, however, serve to indicate the growth for these years.

states with a varying degree of success. It is usually applied to citrus fruits and insures against damage by frost after the fruit has set on. In some instances the trees are also insured against damage by frost or freeze. There are no

TABLE III—THE GROWTH OF RAIN INSURANCE IN THE UNITED STATES, 1921-25
(In thousands of dollars, i.e. 000 omitted)

Year	No. of Companies Writing	Writings	Net Premiums	Losses Incurred	Ratio: Losses: Premiums
1921*	3	.....	\$1,000 (about)	\$1,000 (about)	\$1.00 (about)
1922†	7	.....	1,843	1,173	.64
1923‡	12	\$46,095	4,315	3,732	.86
1924	29	22,795	2,256	1,624	.72
1925	30	12,329	1,114	794	.71

* For the year 1921 the estimates are from an article by C. L. DeWitt appearing in "*Special Lines*" *Lectures* published by the Insurance Society of New York.

† Figures for the year 1922 taken from the *Insurance Almanac* published by the Weekly Underwriter Publishing Co. of New York.

‡ For the years 1923, 1924, 1925, data supplied by the Rain Insurance Association.

Rain insurance proposes to cover loss of income or expenses occasioned by rainfall or other precipitation when measured as rain. Up to the present time it has been used largely to cover fairs, athletic contests, auctions and similar events. Sufficient time has elapsed to prove it a practical form of insurance, though for most of the years and notably in 1923 experience has been unfavorable. Rates have been raised and renewed effort made to place the insurance with desirable risks on a strictly indemnity basis. As a result, while the years 1924 and 1925 show a smaller volume of business, they show a more favorable loss ratio.

IV. FROST INSURANCE

Frost insurance became a practical form in the United States following a survey made by insurance representatives in 1920. It has since that time been applied in Florida, California, Louisiana and in a minor way in other

available statistics showing the development since 1920 of this type of insurance. The figures to be had are fragmentary and merged usually with other minor forms of insurance. For the year 1925, the Spectator Company in their *Distribution by States of Fire Insurance* has made an interesting compilation which includes fourteen companies writing frost insurance in five states. While their figures do not include all of the companies, they are

TABLE IV—PREMIUMS AND LOSSES ON FROST INSURANCE BY STATES FOR THE YEAR 1925

State	Net Premiums	Losses
Arkansas.....	\$147	\$3,759
California.....	110,251	162,030
Colorado.....	292	6
Florida.....	98,643	593
Louisiana.....	36,839	3,101
Total.....	\$246,172	\$169,489

instructive. Table IV presents the experience of these fourteen companies classified by states.

It will be seen from Table IV that for this particular year (which is the business of the winter of 1924-25), the Florida and Louisiana experience was very favorable and the California experience very unfavorable. This was the case also for the winter of 1923-24. During the winter of 1925-26, experience was again favorable in Florida but unfavorable in Louisiana and in California favorable to the insuring companies.

V. CROP INSURANCE

Insurance on growing crops may take one of two forms: either a contract covering one specific hazard as hail or frost or a blanket contract insuring the farmer against many of the hazards to which his crops are exposed. The term crop insurance is usually applied to the latter form of contract. It proposes to insure the farmer against loss or damage to his growing crops when caused by frost, winterkill, flood, drought, insects or disease. In some cases hail is included and in many cases in the past the contract has been so worded that it has turned out to be, in addition, insurance against a decline in the market value of the crop.

Crop insurance was first attempted in the United States in 1899 and so far as the court records indicate the company lasted but one season.⁵ Three other attempts were made in 1917 but they met with failure. Again, in 1920, an attempt was made to apply this form of insurance but heavy losses resulted and the companies withdrew from the field so far as the major crops were concerned. One joint-stock com-

pany has, however, continued to write small amounts using special forms to fit each case and issuing it through crop-growing associations (notably in fruit) to be used by the insured for credit purposes. It is interesting to note, also, that a mutual company in Kansas has recently gone into the hands of a receiver after one year's experience with a crop policy. In the same state, another mutual company has been organized to write crop insurance covering costs of crop operations.⁶ Crop insurance is still decidedly in the experimental stage.

VI. LOSS EXPERIENCE

Each of the five forms of insurance just reviewed covers one or more of the weather elements. The hazard which the insurance company runs in each case (aside from problems of moral hazard) is therefore dependent upon the extent and variability of the weather risks insured. If one assumes that the company's expenses are thirty-five per cent of net premiums collected, then if losses incurred each year average less than sixty-five per cent of total net premiums and no one year's loss is so large as to force the company to withdraw from the field, the business is on a profitable basis.

Of the five weather types, frost insurance and crop insurance have either not been tried for sufficient length of time or on a large enough scale to prove themselves profitable lines. Rain insurance also needs a longer and wider experience to prove itself, though it has made a much better start than either frost or crop insurance.

Of the remaining two weather forms, both have been tried for a long enough period to prove practical lines, though from year to year and between companies they have had a varied experience

⁵ Hoffman, G. Wright, "Crop Insurance—Its Accomplishments and Possibilities," *The Annals of the American Academy of Political and Social Science*, January, 1925.

⁶ See issue of the *Weekly Underwriter* October 16, 1926 and November 13, 1926.

and are still far from stable forms of insurance. Table V shows the loss ratios from the combined experience of all joint-stock companies writing either hail or tornado insurance in the United States. Tornado insurance premiums and tornado losses of all joint-stock companies have been totaled by years and the total losses divided by the total premiums. The same has been done for the hail business and for comparative purposes, for the fire business.

"average annual deviation" and from the "average annual percentage of deviation" it will be seen that both the actual and relative variation from year to year in loss experience is much greater for hail than for tornado or fire insurance.

An attempt has been made in Table VI to present some comparable experience for individual companies for tornado, hail and fire insurance. The material is somewhat fragmentary, however, and only a limited compari-

TABLE V—LOSS RATIOS OF THE COMBINED BUSINESS OF A LARGE NUMBER OF JOINT-STOCK COMPANIES, FOR TORNADO, HAIL, AND FIRE INSURANCE, FOR THE YEARS 1912-25

Year	Ratio: $\frac{\text{losses incurred}}{\text{net premiums received}}$		
	Tornado Business*	Hail Business*	Fire Business†
1912.....	40	61	53
1913.....	30	39	53
1914.....	39	52	60
1915.....	40	129	53
1916.....	29	92	53
1917.....	36	53	51
1918.....	40	60	46
1919.....	27	41	40
1920.....	33	58	46
1921.....	35	68	59
1922.....	33	75	57
1923.....	35	93	52
1924.....	48	85	58
1925.....	39	67	55
Average.....	36	69.5	52.6
Average annual deviation.....	4.3	18.1	4.
Average annual percentage of deviation.....	11.9	26.	7.6

* From Tables I and II.

† From *Proceedings of the National Bureau of Fire Underwriters* (annual); includes lightning business and prior to 1918 marine and inland premiums and losses.

It will be seen at once that, judged from the past fourteen years, the tornado business has been profitable and the hail business particularly during recent years unprofitable. From the

son can be made. The tornado experience of five leading stock companies is shown with the fire experience of the same five companies. It was impossible to find five companies for a ten-

year period who did a fair volume of business in all three lines and therefore three of the hail companies are not identical with the tornado and fire companies. To indicate the relative size of the companies included, their net premiums for the three types of business are shown for the year 1925.

The results of Table VI are similar to those of Table V with reference to the average loss experience of these companies. With respect to the "average annual deviation" and particularly the "average annual percentage of deviation" which shows the relative variation in loss experience from year to year, the tornado business of individual companies fluctuates more than the hail business and each varies much more from year to year than the fire business. The conclusions which may be drawn from Tables V and VI are: (1) that the hail business has been less profitable and the tornado business more profitable on the whole during the past fourteen years than the fire business per \$100 of premiums received; and (2) that neither the hail nor the tornado business, considered either by companies or as a class of insurance, is on as stable a basis as the fire business. This is doubtless due in part to a lack of spread, in part to faulty graduation of rates between individual risks, and in part to the inherent nature of the risk insured.

VII. THE OUTLOOK

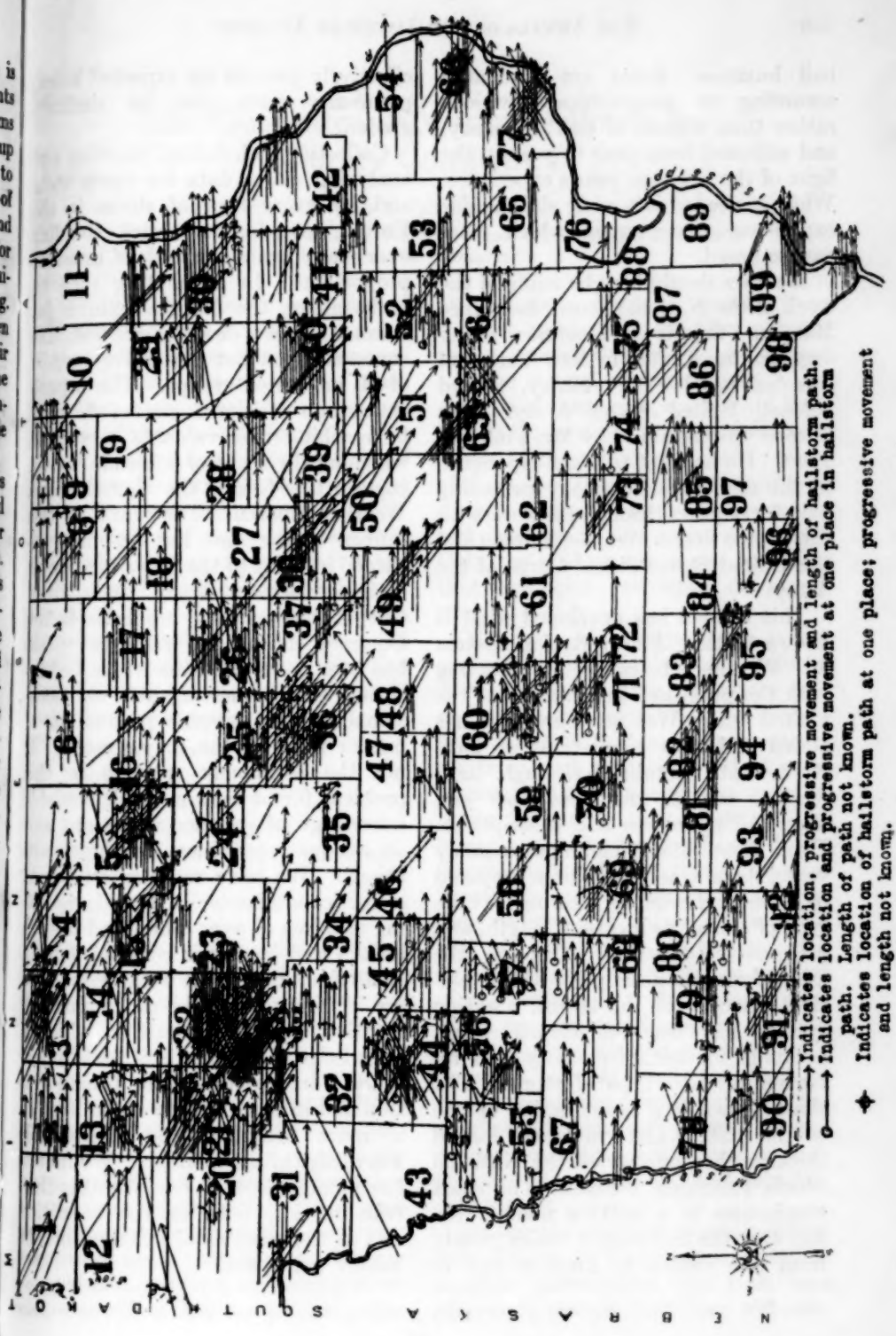
All of the forms of weather insurance depend for their success upon a knowledge of the frequency and intensity of one or more of the weather elements. This does not mean that with such a knowledge success is assured. Items of new business expense, adjustment of claims, unusual costs growing out of the selection of risks may cause success for one company and failure for

another. But of basic importance is an adequate knowledge of the elements of weather being insured. Large sums of money have been spent by the group of companies writing rain insurance to determine the relative frequency of rain for different localities by days and in some cases by hours of the day for the purpose of determining an equitable and adequate plan of rating. Extensive research has similarly been made for frost insurance. In their rating of hail and tornado risks, the experience records of the various companies serve as valuable files to guide them.

But while the records of companies include thousands of cases and extend over a good many years, they are for rating purposes still very inadequate. No one realizes this fact as much as the underwriting companies themselves. They are called upon to write a policy covering the tornado hazard perhaps in a section where their experience is fairly complete for two or three years but not longer or where only extremely scattered information if any is available. There were during the year 1925 over two hundred direct-writing companies writing tornado insurance. Necessarily most of these in most of the states could not have much knowledge of the risk being insured. Fortunately for the underwriting companies in tornado insurance, the rates have been placed sufficiently high that, hit or miss, they have on the whole come out with a profit. But such a plan only discourages altogether the insuring of property against this hazard where the probability of serious windstorm damage is small and decreases the amount taken out in sections where the danger is relatively high. Windstorm insurance should be as universal in its application as fire insurance. What is true of tornado experience is also true of the

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hail business. Rates are graduated according to geographical divisions rather than regions of hail frequency, and adjusted from year to year in the light of the previous year's experience. What is needed is a more dependable experience record upon which rates can be based.

Mention should here be made of the work of the National Storm Insurance Bureau. This is an insurance rating organization located in New York and directed by John P. Finley, retired colonel, United States Army. This bureau was organized by Mr. Finley in 1920. He brought to it an experience in the field of meteorology extending over forty years through his work with the United States Weather Bureau and the United States Signal Corps of the Army.

This Bureau has developed what is known as the "Finley Rating System for Weather Insurance." Starting with the published information of the United States Weather Bureau, it has added elaborate tabulations of local storm data obtained through local weather reports and newspaper and magazine references and descriptions. From these data extending over many years, storm tracts have been prepared by states and counties showing for each type of storm, its location, length, and progressive direction. Through the use of formulae descriptive of the relative intensity of the storm, a rating system has been developed which accounts for both frequency and intensity of each type of storm. The chart shown is a reproduction of one of the state hailstorm tracts loaned through the courtesy of the National Storm Insurance Bureau. The chart emphasizes in a striking manner the fact that the hail hazard varies greatly from one section to another and to

effectively provide for expected losses, premiums must also be similarly graded.

Collecting, tabulating, charting and analyzing storm data for every state and for every type of storm in the United States for time series extending over many years is a task of immense proportions. In attempting such an undertaking, the National Storm Insurance Bureau deserves not only the commendation but the active support of all interested groups. The organization in a position to render the most far-reaching and valuable service in widening the scope of scientific knowledge in this field is the United States Weather Bureau. The work of this bureau in the past has certainly returned in value to the American people their investment many times over. One of the pressing problems before Congress during the past five years has been to devise some means of insuring the farmer against an occasional unusual surplus production of one or more of the major crops. Is not the permanent solution to this problem found in a more dependable knowledge of weather variations and an adequate provision for these variations? We have recently witnessed a hurricane disaster in Florida resulting in a loss of over a hundred million dollars and insurance covering only a small fraction of the total loss. We are entering the field of commercial aviation on a large scale in which a knowledge of weather is of first importance. In agriculture, in transportation and in industry, we are in need of a more complete and dependable knowledge of the weather. Would not the enlargement of our Weather Bureau service, both in the collection and in the analysis of information, be money well spent?

The Guarantee of Mortgage Bonds by Surety Companies

By EDWARD L. MCKENNA, PH.D.

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ALTHOUGH isolated examples of the guarantee of mortgages occur in the history of suretyship, present practice in this form of coverage is not more than three years old. The connections of the Globe Indemnity Company with the Adair Company, and of the National Surety Company with the Mortgage Security Corporation of America are early modern instances, and similar ones are to be found in the experience of the Fidelity and Deposit Company and of the Independence Casualty Company.

At the present time, the following companies are writing surety bonds to guarantee mortgages:

National Surety
Maryland Casualty
Globe Indemnity
Metropolitan Casualty
United States Fidelity and Guarantee
Massachusetts Casualty

These companies are writing under a uniform premium of one-half of one per cent on the face of the guarantee per year. In practically no other respect is there uniformity.

Some of these companies are much interested in the development of the business and show a readiness to compete for it. Others have reached the present limit of their underwriting capacity as determined by their own executive boards; reached it last year; reached it again this summer; occupy the pleasant position of having more customers than they can accommodate

at this time. Another company on this list, although it must be included in it, is apparently curtailing its present position instead of extending it.

Some of these companies write business in thirty states or more, and in upwards of three hundred cities. Some of them have limited their operation to a single state. Many of them exclude certain states for one reason or another. Only one of these companies proclaims that it makes no restriction as to territory.

The form of the guarantee is not uniform; it is anything but uniform. Some companies have a separate staff and a separate department to investigate and handle this business, others make no such provision. Most companies demand an eighteen months' option period in case of default by mortgages, but all sorts of periods are found—sixty days, three months. Some companies will guarantee all of an issue or none of it, others will insure a part of the issue, or use two separate forms of guarantee for different sections of the same issue. Agreements exist which are not transferable by the certificate holder without payment of a premium; in other words, the purchase of the guarantee is optional with the certificate holder. The more general arrangement at present is for a guarantee printed on the bond and transferable with it.

Among the companies not included among these six there are nevertheless possible underwriters. At least two companies declare that they will con-

sider an individual application from a mortgage company upon its merits, although they are not at present writing such guarantees. Another company which formerly wrote the business now does so no longer. Certain other companies declare themselves unwilling to enter the business at the present time for one or more of the following reasons:

- (1) The uncertainty of the real estate market.
- (2) The uncertainty of a reinsurance market, should the company desire to split the risk.
- (3) Lack of facilities within the company for the investigation of mortgage loans.
- (4) Belief that it is improper to allow the company's name to be used as a selling argument in campaigns for the marketing of the securities.

The present situation in the mortgage-bond guaranty situation then is this: six companies writing the business, at least two of them to the present limits of their capacity and a third approaching a capacity stated to be well up in the millions of dollars; interest in such business displayed by other companies to an extent that indicates a willingness to enter the field; opposition or lack of interest displayed by other companies for reasons here enumerated; lack of uniformity among the writing companies with reference to practices and forms such as might be expected in so new a business.

WHY ARE MORTGAGE BONDS GUARANTEED BY SURETY COMPANIES?

There seems to be little question that the principal motive which actuates the seller of mortgage certificates in applying to surety companies for guarantee is his desire to make these certificates more attractive to purchasers. Such

certificates themselves may have as security the tangible values of the property and improvements, specific deposits of collateral with a trustee, and the credit and assets of the issuing house. For many years certain well-established dealers in mortgage certificates have given their own guarantee of some issues to their buyers, for a premium of one-half of one per cent per year. They are able to do this because of the state of their credit, because of their business record and their reputation for conservatism extending over a considerable period of years. Such houses as these have performed a service for investors which younger and less well-known corporations could not duplicate. There can be little doubt that the solicitation of surety companies by sellers of mortgage certificates was a competitive move either to meet a difficulty already experienced in competitive selling, or in anticipation of such a difficulty. Once the support of the surety company is obtained, it seems to be a fact that the name of the company is used in selling arguments.

That this practice is undesirable or dubious does not appear. The bonding company may be making its guarantee in either of two ways; first, after painstaking and thorough examination of the risk by a corps of experts; or second, somewhat more cynically with an eye merely to rates of mortality in mortgage investments and to the spread of risks. Or it may combine these two methods in varying proportions.

In the first case it is proceeding along the lines which are peculiar to the business of suretyship; in the second, it is acting as an insurance company. Naturally, if the second method encourages carelessness on the part of original issuers or sellers of certificates the effect upon the general business of selling mortgage certificates will not be

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good. But the effect of failure of any mortgage dealers will not help the mortgage business either, and has not helped it, and if the bonding company steps in to cover losses to investors it will be more desirable from the standpoint of the companies that remain than if disgruntled investors are left to carry their sad story to prospective purchasers and to ruin many future sales. The failure of a competitor is not always an unmixed blessing.

Furthermore, the argument that guarantees or insurance increase carelessness is so old that it can scarcely fail to have some truth. It has been applied to almost every branch of insurance at one time or another. Few, however, will be found to give the theory complete endorsement.

On the other hand, if the guarantee of such bonds by one or another form of corporation becomes general, irresponsible competition may be lessened rather than increased. At the present time, too, the company which is big enough and sufficiently autonomous to guarantee its own bonds or those for which it is sponsor, at the rate of one-half of one per cent, is doing business more profitably than a surety company can do it, for the mortgage company already has made an examination of the bonds and has charged for it, and the guarantee premium may be used to cover losses, if there are any, whereas the surety company must spend something out of the premium for expenses other than losses.

It is well recognized that in every department of the surety business premiums at first tend to be charged upon a semi-actuarial basis, that is, that they are written chiefly with reference to known or estimated loss-ratios. As time goes on, more and more attention is paid to the reduction of losses and to the classification and investigation of risks, and premiums are altered ac-

cordingly in both directions, up and down. There is reason to believe that the maintenance of separate departments for the investigation of mortgage issues will be continued and developed, and that it will help the mortgage business and not harm it, and that ultimately it may help even the companies which have no need for separate surety company guarantees. The amount of competition now existing indicates clearly that the business is no one's exclusive field, and as these securities fall into the hands of so many small investors it seems desirable from every point of view that they should be surrounded with every safeguard. Anything which tends for the greater security of such investments should be a good thing for the business as a whole.

FORM OF SURETY GUARANTEE

As has been stated, the guarantee of the surety company is not a uniform one. Mr. P. E. Kniskern,¹ Vice-President of the National Surety Company, has said that the guarantee should be short, concise and easily worded, and so simple as to be understandable to those with little business experience. A form of guarantee adopted by the National Surety Company is as follows:

For value received, we hereby jointly and severally guarantee to the holder hereof the payment of this bond or note and also the payment of the attached interest coupons, as the same fall due, without necessity of recourse to the collateral deed of trust or the primary obligor, upon condition that at our option we are to be allowed eighteen months from the date of maturity of principal within which to make payment, but with interest on the principal sum in the meantime at the before-maturity rate named in the bond or note.

¹ P. E. Kniskern, "The Surety Company and the Guarantee of Notes Secured by Real Estate." An address delivered before the Intermediate Surety Class of the Insurance Institute, New York, February 25, 1926.

It is clearly desirable, as Mr. Kniskern says, that this guarantee should be simple and easily understandable. In fact, however, all sorts of qualification of the guarantee are in existence, to an extent that it is impossible to enumerate them. Mr. Stanton, Vice-President of the Metropolitan Casualty Company, says that there are three general forms of guarantee, each of them subject to modification under particular circumstances; one which is used when collateral has been deposited of high marketability and unquestioned value, one which has to do with the trustee, and a third which guarantees the overlying security.

Some guarantees are for part of the issue only, and some contain careful qualifications and stipulations and restrictive clauses and are far from being easily understandable, however concise they may be. The guarantee is now usually printed upon the bond itself and might well be read by the prospective purchaser. Some company officials question whether uniform guarantees are at present practicable.

In a pamphlet issued by the National Surety Company, Mr. Kniskern says of the option of deferred payment by the surety company, which appears in the quoted example above, that it would be well to have a uniform period of eighteen months stipulated for all companies doing a widely-spread business. The theory of the option period is that it will allow a transfer of the property, or a foreclosure, and then an elapsing space of time after foreclosure within which redemption is possible. State statutes differing concerning the length of time of the redemption period, a shorter time-limit is practicable enough in some localities and might appear more desirable to the certificate holder. From the point of view of the surety company, a uniform period would seem to be desirable.

Mr. Philip Sydney Rice,² of the Mortgage Security Corporation of America, is opposed to the form of guarantee which may be purchased by the bond certificate holder or not at his option. This method, he says, is frequently used by salesmen as an argument in favor of the bond without any corresponding effort on their part to induce the prospective buyer to avail himself of the guarantee. Similarly, he says, where a part of the issue has been guaranteed only, the prospective purchaser is solicited to buy unguaranteed portions. He concludes that the only form of surety guarantee should be "an unqualified guarantee covering full payment of principal and interest from date of issue to date of maturity."

GENERAL CONDITIONS NECESSARY IN ACCEPTABLE RISKS³

Although here, as elsewhere, local conditions make for variation in practice, certain general statements may be made concerning some characteristics of acceptable risks.

The lender must be an incorporated mortgage company. The mortgages must be deposited with a trustee, who is suitable. Title insurance policies and fire insurance policies must likewise be deposited with him. The Mortgage Company itself must generally not be engaged in any other business, so that its assets may not be diverted in case of misfortune.

Mortgages must be first mortgages on improved property.

² Mr. Philip Sydney Rice, "The Purpose of Mortgage Bond Guarantee." An article in *The Casualty Insuror*, December, 1925.

³ See "Guaranteeing Mortgage Bonds," an editorial in *The Casualty Insuror*, September 1925; P. S. Rice, "Purpose of Mortgage Bond Guarantee," December 1925; "The Mortgage Guaranty Bond," by J. W. Bristol, in the *Weekly Underwriter Bonding Supplement*, 1925; P. W. Kniskern, in *Weekly Underwriter Bonding Supplement*, 1926.

In the absence of other considerations, certain classes of property are not generally acceptable. These include theatres, hotels, churches, garages, warehouses, filling stations and other property whose purposes are highly specialized. Large apartment houses are sometimes included in this list.

The property is appraised by two disinterested experts and the loan must not exceed sixty per cent of such value; in some cases, fifty per cent is taken as a limit. Practice makes the amount of the loan nearer fifty per cent whatever the established limit is.

The law of the state must not be too cumbersome with reference to foreclosures or rights of redemption by mortgagees. It must also be examined concerning mechanics' liens and how they may affect mortgage priority. In some states, title companies will assume these liens for a consideration.

The issuing company must furnish the surety company with a complete and satisfactory indemnity agreement. The surety is in no sense insuring the issuer of the certificates against loss. In case of default, the surety proceeds as it would against any other principal.

Opinions vary concerning the relation between the face of the guaranty and the amount at risk. The confident expectation of the surety company is that it will seldom if ever have to pay anything like the face value of any single obligation and that salvage will be high. On the other hand it is pointed out that, if the bonding company has to protect itself at a foreclosure, the amount underwritten may be much smaller than what the company has to pay immediately.

It will be seen that what constitutes an acceptable risk may be stated as if it were simple, and that it plainly is not so. It is well known that competent and disinterested appraisers

of urban property differ widely in their estimates. Even if they agree, it is impossible to say how much they may be influenced by temporary speculation of operators in the market or by the temporary lack of it, and their estimate of future values, even those in the immediate future, might be found to be interestingly wrong. Rents fluctuate, legislatures sometimes interfere, and localities change. Many experts believe that the real estate market is the one market that over a period of time cannot go any way but one. Curiously enough, they could find support for their theory in the writings of economists who are eminently classical.

Although the mortgage business is proverbially safe, it is not impossible to lose money at it. Now that it is coming to interest small investors so widely, any additional safeguards which may be thrown about it seem to be socially desirable.

Those surety companies which have organized separate departments to care for their mortgage guaranty business have chosen men of wide experience in the mortgage field; they maintain close relationships with title companies; they are endeavoring to secure a spread of the risk by two different methods, first, by making a large number of loans in widely scattered cities, and second, by concentration on the issues upon property in specific cities where local conditions are known by experts to be favorable. Guarantees are not made wholesale, but one by one, and frequently the report of any single investigator concerning the issue is a lengthy document. Examination of loans presents all sorts of complications; title insurance is not procurable everywhere, and in certain localities this insurance is not as broad as it is elsewhere, sometimes in consequence of legal decision and sometimes for other reasons. Other forms of insurance

may be necessary besides fire and title—wind-storm, flood and tornado for example. Recent changes in statutes affecting mortgagors, or pending statutes may affect the situation. It can be demonstrated that very profitable business has been done with property as a basis now under an excluded class—hotels, for example, and applications are constantly being made for an extension of the business to include such property. Some companies refuse to

guarantee construction-loan bonds while others have found it profitable to do so.

There is evidence that the surety companies interested in the underwriting of mortgage securities are proceeding to develop a technical and highly specialized field which may be very profitable. Should they be successful, no one may say what extensions may be encouraged in the field of suretyship.

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Insurance Companies and Accident Prevention

By JAMES S. KEMPER

President, Lumbermens Mutual Casualty Company, Chicago, Ill.

WE have been told that every civilization carries the seeds of its own destruction. One examining the casualty records of our present "mechanical age" can well believe it. The elevator, which whisks us up and down great heights and makes skyscrapers possible; the automobile, which has broken down provincialism and is causing our globe to shrink with such amazing rapidity; the machinery for manufacturing these and the countless other conveniences of our day—all have taken great toll of human life and limb and of property in accidents. But whereas pestilences and the other scourges of bygone civilizations ran their course unchecked, it is heartening to realize that ours is no age of surrender to fate.

Complacency sometimes delays us in getting started, but once we are aroused we get at the cause of our trouble and eradicate it. Witness tuberculosis. There was a time when sages shook their heads over the "white plague" and saw in its fearful ravages the doom brought upon a civilization that had moved indoors and forsaken the open. Then science and common sense came to the rescue. The guilty bacillus was studied and doctors, nurses and the public successfully taught how both to avoid and combat it. The bedroom windows of the world were thrown open. Baseball, golf and other athletics for the masses were popularized. The result has been to dwarf the gigantic menace of that dread disease. There are indications that cancer similarly will be made to succumb.

MOVEMENT TOWARD ACCIDENT PREVENTION

So with the accidental casualties peculiar to this era. Public opinion has been focused upon them, and that means the beginning of the end. Printing press and radio enable public opinion so to marshal its forces that movements of a magnitude that once would have taken centuries now accomplish their purpose in a few years. Public opinion will fashion the necessary tools out of organization, science, business and other present-day forces. Already they can be seen to be taking shape. With them we will succeed in controlling accidental casualties and the proportionate figures will begin to decline from the peak—indeed have begun to do so.

One more word of introduction is necessary before discussing the part of the insurance companies in accident prevention. That word must concern itself with the railroads and with the largest industrial plants, particularly in the steel industry. The force of public opinion and the power of the sequent forces it sets in motion are aptly illustrated in the history of the railroad "Safety First" movement. It can only be touched upon here. An outraged public demanded the end of death-dealing train wrecks. Acceleration of double-tracking, installation of automatic signals and improvement in coach construction ensued. At the same time someone seized the phrase "Safety First" as a banner and applying the methods now so common in "drives" organized railroad employes

into committees to curb accidents and started them marching. The results were striking. It is not uncommon now for a huge railroad system to go a year or longer without a passenger-death. The big industries, which had already created safety engineers and begun in a large way to install mechanical safeguards, quickly utilized the employe-organization principle with success. It is a somewhat grotesque fact that the next great heightening of interest in accident prevention should have come as a by-product of the World War with its millions of fatalities abroad, giving rise to the cry to conserve man-power for the essential industries at home. Such was the case, and in the publicity then and since given the subject one may note the emergence of the insurance companies as a dominant factor in accident prevention.

RISE OF INSURANCE COMPANIES

For decades there has been taking place in the great business of insurance an evolution in basic principle. The emphasis has been shifting from indemnity to prevention, so that the prevention of misfortune as well as the mitigation of the effects of misfortune is the recognized goal. With this shift, this altered conception of the fundamental purpose of insurance institutions, it is natural that the insurance companies should be found in the forefront of the national and international movements to minimize the now appalling casualties incident to our "peace-time" industrial and social life.

While general public interest in accident prevention centers upon its humanitarian aspects and while it would be unfair not to say that the activities of the insurance companies in this direction are powerfully motivated by humanitarian considerations, there are other inherent factors that have influ-

enced the companies. These factors apply to all lines of casualty insurance but we will consider, for example, their effect as a stimulus to accident prevention in connection with workmen's compensation insurance in particular. One of them is the fact that it is advantageous for insurance companies to transact business upon a falling loss ratio. This would not necessarily be true if rates could be altered in concurrence with experience, but since that is impossible and since rates cannot well be predicated on the experience for a given period until several years after that period, it behooves the casualty insurance carrier to force the loss ratio down year by year. This calls for accident prevention.

Then there is the urge of rates—of price. Increasing overhead costs and the common impulses that compel growth call for an increasing volume of business. The companies as a whole must make insurance attractive by keeping the rates down or they will not grow as they should. To keep the rates down necessitates keeping the loss ratio down. That in turn means keeping the accidents down by constructive measures of prevention. At this point another powerful influence is brought to bear—Merit Rating.

MERIT RATING SYSTEM

Obviously, it is desirable to permit modification of the rates downward in the case of those risks which are outstandingly good risks, which have consistently favorable loss records, which by one method and another eliminate and reduce the hazards and chances for loss, and to permit modification of the rates upward in the case of those risks of which the reverse is true. To effect this modification justly and properly there has been evolved in the casualty insurance business the system of Merit Rating. This is a general term to

cover two specific and distinctive devices—Schedule Rating and Experience Rating.

Schedule Rating is the operation which produces rates higher than the average or manual rates for those risks in which more than the average number of dangerous conditions exist, and which produces rates lower than "manual" for those risks which have reduced the physical hazards by machine guards, other safety devices and plant safety committee organization. But two plants, with similarly guarded machinery and the same number of men, often show a great difference in the number and cost of accidents. So in most states it is now possible, if the plant is big enough, to obtain a further change of rate due to past experience. This is called "Experience Rating."

The rate manuals classify risks according to the relative hazards of the various industries and businesses, and within those classifications further distinguish between occupations of greater or less hazard. Schedule Rating further subdivides or re-classifies the risks which in the regular manual are under a single rate. In two manufacturing plants of like size turning out similar products there may be wide variance in the factors influencing casualties to employees. These factors have been distinctly isolated by the researches conducted by the insurance companies into the vast amount of data they have collected. The researches have shown, for instance, that the sources of accidents covered under workmen's compensation insurance are approximately as follows:

	Per Cent
Elevators.....	1.5
Power transmission apparatus (gears, belts, shafting, etc.).....	1.5
Driving mechanism.....	1
Point of operation (the part of a machine where the work is actually inserted and maintained in the processes of forming,	

shaping, stamping, sawing, cutting, etc.)	55
Other moving parts of machines.....	7
Unclassified insofar as machinery is concerned (preventable if at all by supervision, education, medical attention, etc., rather than by machine guarding, etc.).....	34

Going back to our comparison of the two plants, each may have the same number of rip-saws, for instance. However, one may have all of its saws efficiently guarded and the other may have only part of its saws guarded, and those not in the most efficient manner. Further, the one with the better guarding may also have, and the other not have, rigid rules requiring the constant use of the guards provided, means of training new employes in the safe operation of the machines, a plant safety committee and boards for posting safety bulletins. Scheduling of these conditions results in rewarding the better protected plant with a reduction in rates and penalizing the less well-protected one by an increase in rates. Thus a powerful incentive is provided for accident prevention work, the ramifications of which we will discuss later on.

In passing it may be noted that in many cases the rate reward does not in itself ever directly compensate the insured for the expense of the guards and other safety work. Yet he is amply repaid in the by-products of a reduced loss ratio. He is repaid because he has fewer of the incidental losses that follow accidents. He avoids (1) decreased production due to the absence of regular employes; (2) inefficiency of new employes and psychological bad effect of casualties on other employes; (3) labor turnover costs, including training of new employes; (4) increased overhead costs on account of idle machinery and decreased volume of production; and (5) spoilage of material by new employes.

After the factors which enter into Schedule Rating have been given effect,

there remains a degree of control over casualties through management, organization, education. Thus, even if the two plants which we mentioned in the foregoing did have identical rates after schedule rating, their respective loss ratios over a period of years might show marked differences. Experience rating takes these facts into consideration. Compensation insurance premiums are figured on the employer's pay-roll. For the purposes of experience rating the proportion that the losses paid bears to the pay-roll is determined. Then by actuarial methods there can be established a revised rate giving credit where good supervision and morale have resulted in an under-average loss ratio, and vice-versa. Schedule rating emphasizes the physical factors that affect accident frequency, but experience rating is influenced also by the moral and psychological ones. Both have given tremendous impetus to the promotion of systematic, organized accident prevention activities. There is no doubt that employers and insurance companies alike would take a lively interest in accident prevention even had merit rating never been introduced, and would be influenced by humanitarian considerations to carry it forward, even though financial considerations were not involved. It is equally true that merit rating has been an important influence in developing accident prevention work by insurance companies to its present scope.

PRESENT SCOPE IN PREVENTION WORK

That scope is amazing from whatever angle it is viewed. It was only forty years ago that the first American casualty company—a mutual in Massachusetts—was organized. That company was the outgrowth of what is generally known as the factory mutual system of insurance. This system, which originated among the cotton mill

owners of New England, first inaugurated in this country the theory that loss prevention was equally as important as indemnity. It was natural then that the new mutual casualty company embarking in the then untried field of employers' liability insurance should have adopted as an essential part of its program the inspection and selection of its risks. The innovation occasioned some ridicule at the time. Today the companies have thousands of inspectors, and millions of dollars are spent annually for safety work.

In casualty insurance companies and particularly in those doing a relatively large amount of workmen's compensation insurance business, no department of the organization is considered more important than the inspection and safety department. In addition to the standardized and routine activities of the regular safety inspectors, a compensation carrier may have a variety of other safety enterprises. For instance: Illustrated safety bulletins showing the right and wrong way, safe and unsafe way, to do various jobs are circulated and posted regularly. A central safety committee at the home office of the insurance company regularly studies the accidents that have been reported, to devise ways and means of preventing their recurrence, and supervises the work of similar plant safety committees maintained among the assured's employees.

Magazines are provided for the benefit of employers, illustrating safety devices and guards, describing accidents and telling how they might have been prevented and guiding the employer in the safety education of his employees. Letters are written to foremen and superintendents directly. Badges and other devices are employed to stimulate interest in the safety committees on the part of the employees. Meetings of employees are held, and even

meetings to which their families are invited to bring to bear the influence of the home in urging workmen to greater carefulness. At these meetings stereopticon pictures and even motion pictures are shown to illustrate safe and unsafe practices. In a word, to safety education a continuous stream of safety propaganda is devoted and directed. Results are constantly accruing and testify to the success of the efforts. In the campaign, use is made of the most effective devices of modern publicity. Humor and novelty are employed. If they are justified in selling shoes and breakfast food, why not in saving lives?

If in the foregoing the vitally important subject of machine guarding is apparently dismissed with undue celerity and the emphasis apparently placed too strongly on the educational side of accident prevention, reminder may be given in explanation that in the movement for industrial safety, the first point of attack was the unguarded machine and other hazards susceptible to guarding. That was natural and proper. These were the obvious causes of accidents; the causes could be removed and the accidents could be prevented. It has been done to a considerable degree. Lives, limbs and property of incalculable worth have been saved. But still accidents continue. Why? Because there is a second line of trenches to be taken. In it are carelessness, heedlessness and thoughtlessness—the human element. The human element will always be there, but it can and will be educated so that accidents due to this cause will be minimized.

In studying "preventable accidents" over a period of years, we have seen the percentage of accidents that could have been mechanically guarded against decrease and the percentage preventable by care increase strikingly. An ex-

ample of prevailing conditions is found in a recent study of accidents reported during a year in a certain state by ten lumbermen who are workmen's compensation insurance policyholders. Of 630 accidents only 129 were in connection with machinery. The remaining 501 included 146 while handling material, eighty-eight splinters, seventy-five from falling objects, sixty-five cases of slipping and falling, forty-eight injuries from nails, twenty-one from hand tools and so on—most of them preventable by care.

While workmen's compensation insurance and the related employers' liability line afford the most conspicuous field for accident prevention work on the part of insurance companies, other lines of casualty insurance are not lacking in interest in this regard. For instance, there is public liability insurance, affording indemnity against loss because of damages received by the public for accidental injury or death. In the case of manufacturers and builders, pedestrians must be protected against falling objects, obstacles in the shape of material piles, and conveying, hoisting and other machinery. In stores, theatres and other public places the safety work emphasizes the need for adequate exits, protection against fire and similar precautions.

In such lines as steam boiler, fly-wheel, engine-breakdown and elevator insurance, it is noteworthy that the accident prevention and inspection work is actually regarded by the policyholders as of primary importance and the indemnity secondary. Inspection work of this kind carries grave responsibility and requires uncommon ability. For it the insurance companies have developed specialists on whom the policyholder depends to determine, for example, the pressure a boiler will safely stand or the load an elevator will safely carry.

In two of the most important branches of casualty insurance, the problems of accident prevention are quite different from those in workmen's compensation and the other lines we have discussed. These two are personal accident and automobile insurance. In them the approach is very difficult. Here it is that the whole general public must be educated. In personal accident insurance some progress can be made with letters and bulletins by calling the attention of individual policyholders in a striking way to outstanding hazards. As yet the companies having a large volume of this class of business have not emulated the huge life insurance companies that have boldly—and successfully—undertaken in periodical advertisements, reinforced with booklets and other printed matter, to prolong the life of the public in general by teaching lessons of hygiene and right living. Some of this propaganda is directed against causes of accidental death and so is helpful to the companies that carry accident insurance. The loss prevention work of the fire insurance companies also is of advantage to the casualty insurance companies, in that prevention of fire may mean also prevention of loss of life by fire and panic.

Automobile accident prevention is a tremendous problem of great public interest. Despite the difficulties of approach, the problem is being vigorously grappled with, and in the struggle the insurance companies have a prominent place. No small amount of inspection and educational work is directed to policyholders, particularly those with "fleets" of automobiles and trucks. Letters and posters call attention to hazards and illustrate safe and unsafe driving. Bulletins are put up in garages. Drivers are instructed in classes and provided with manuals teaching them the methods of safe operation of motor vehicles. Much of

the advertising of the automobile insurance companies couples accident prevention appeal with "sales talk."

The problem of street and highway accidents is one that is engaging the attention of leaders in many other lines of endeavor as well as in the insurance world. Countless municipal, city, state and even national bodies have been created to cope with automobile accidents and devise ways and means of preventing them. Among these is the National Conference on Street and Highway Safety brought into being by the Secretary of Commerce. Its chief accomplishment is the so-called Uniform Vehicle Code of Laws governing motor vehicle licensing, registration and operation. This code is intended for enactment in all the states of the Union. In it are combined the best features from numerous state and municipal codes. The selection was made after many meetings and exhaustive study by committees included in whose membership were the leading experts of the country in all matters affecting the operation, maintenance and use of motor vehicles. Without doubt the present relatively lax observance of rules and regulations affecting motorists in no small measure arises from the confusion of laws in adjoining municipalities and states, making their enforcement exceedingly difficult. It can scarcely be doubted that the widespread enactment of the Uniform Vehicle Code, with its wisely chosen provisions, capable of consistent enforcement, will force sharp reductions in our national automobile accident ratios—by enabling tourists to know and obey the law wherever they may be; by depriving incapable, reckless and criminal drivers of the right to drive; by eliminating speeding.

WHAT MASSACHUSETTS IS DOING

As this is written an interesting experiment in legislation is commencing

in Massachusetts where a so-called "Compulsory Automobile Insurance Law" has become effective. In that state no one can get an automobile license who has not guaranteed his liability for damages on account of personal injury or death of others. Proponents of legislation of this type believe that it will incidentally have the effect of preventing accidents. Opponents point out that there seems to be reason to believe that compulsory automobile insurance may increase rather than decrease accidents. Of the limited world experience available the Swiss is probably the most comprehensive. The one outstanding indication with respect to compulsory automobile insurance in that country is that it has considerably increased the number of accidents. It cannot be presumed that compulsory automobile insurance will tend to make drivers more careful, indeed the reverse is highly probable. Compulsory automobile insurance will have no effect on accidents caused by pedestrians, and careful investigation has disclosed that pedestrians are responsible for nearly as many accidents as automobile drivers. Compulsory

automobile insurance may through the operation of the insurance policy cancellation feature operate to deprive the careless and reckless driver of the use of the highways. It is a new experiment in legislation. Time alone will determine its advantages and disadvantages as a means of accident prevention.

CONCERTED ACTION

Unquestionably, accident prevention both industrial and as applied to our streets and highways is one of our great national problems. As such it is worthy of our most intelligent study. Tremendous strides have been made in the past decade in efforts looking toward a solution of the question. While insurance companies were probably the first to realize the seriousness of the situation and still are in the forefront from the standpoint of financial contributions, it is significant that today civic leaders in every line are lending their efforts toward a diminution of our accident toll. It is inconceivable that with unanimity of purpose and effort and conscientious attention by these great forces a substantial improvement in the situation cannot be attained.

Modern Trends in Accident and Health Insurance

By AUSTIN J. LILLY, LL.B.¹

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THE development and progress of Accident and Health Insurance is a story of human ingenuity in conflict with a stubborn insurance principle. The principle has not changed. It is as grimly present today as it was two centuries ago when the Friendly Societies of England and the Continental Trade Guilds sought not unsuccessfully to solve the problem by surrounding the right to benefits with traditional caste and occupational checks and balances. It is as grimly present today as it was a century thereafter, when the Accidental Death Insurance Company of London learned that an allowance of "ten pounds for medical attendance during injury" did not, as was fondly expected, expedite recoveries, with resultant savings to the Company, but rather was played against the Company by the physician to increase his fees, and by the policyholder to increase the duration of weekly payments; and when the enterprising but not particularly scientific health and accident companies organized in Pennsylvania, Massachusetts and New Jersey learned that unguarded risk selection plays havoc with calculations based merely upon the general law of averages. It is as grimly present today as it was in the sixties, when the limited and guarded accident coverages, and in the nineties, when the still more limited and guarded health coverages first laid the real

foundation for today's diversified insurances; and as it will be until the trumpet of the Angel Gabriel shall render insurance principles, and coverages more or less adapted thereto, equally vain.

We can never entirely hope to circumvent the fact that insurance, if it is to be within the financial reach of the person whose lack of financial solidity and stability is largely the justification for its purchase, if it is to be satisfactory to him when it shall have been purchased, if it is to be reasonably profitable to the company which sells it, *must be calculated inter alia upon a hazard which is susceptible under every aspect, and in its totality, of approximately accurate mathematical calculation!* That the disability hazard under accident policies, under health policies, and under combination policies is not *in esse* and *per se* so calculable, accounts in part for the discrepancy between annual life insurance premiums of some two and one-half billion dollars and annual accident and health premiums of some thirty million dollars,—a discrepancy which becomes the more astounding with a realization that the average occurrence of disability in ratio to insurable population is tremendously higher than the average occurrence of deaths in any given year. The difference lies in the ease and success of the adaptation of the insurance to the controlling principle in the one case and the difficulty of adaptation in the other, and is a most practical exemplification of the aphorism that figures (when they can be had) do not lie, and, by reversion, of the contrary

¹ The writer desires to acknowledge his indebtedness to Mr. F. L. Templeman, Manager, Accident & Health Department, Maryland Casualty Company, for constructive criticism and other valuable assistance in the preparation of this article.

tendency of human nature in possession of an insurance policy upon which there is a claim of variable value.

MODERN TREND

Out of the never-ending conflict with this principle has come the series of adjustments and readjustments which constitute the chronological saga of accident and health insurance, which show a constant progress not relatively equalled by the progress in any other line, and which speak for a future continuity in development to a state much nearer perfection than could have seemed possible to the weary but never disheartened workers of forty or even thirty or even twenty years ago.

The modern trend is unquestionably a trend of progress. We have come a long way from the hesitant tentative of the first English company which so bravely relied upon the curative virtues of a medical allowance; and that is but seventy-five years behind us. We have come further and much faster from the rider covering some eight or more diseases issued as an endorsement to an accident policy which blazed the trail to our present forms, and that is little more than thirty years behind us. And, incidentally, while life premiums and health and accident premiums stand in the ratio of more than \$80 to \$1, the *ratio of increase in the past ten years* is in favor of the latter by two to one.

The modern trend is unquestionably a trend of adaptability. Willingly, through innate wisdom, or unwillingly, through pressure of competition, all forces are working to the end that the needs of the policyholder shall be adequately served. The end is not yet, but there is an end which will serve both the companies and the assured; and, perhaps gropingly, but always determinedly, we are working toward it.

The modern trend is a trend of

simplification and certainty. Simplification in policy forms; certainty in benefits; an unhesitating determination to provide a dollar's worth, to deliver the dollar's worth, and to collect the dollar. Adaptability, simplification and certainty, summed up in "progress," sufficiently serve to epitomize the modern trend and to indicate its underlying soundness and vitality.

This process of growth by adjustment and readjustment has manifested itself in many apparently trivial and unrelated details, the sum of all of which, however, is impressive; and one or two of which, as for instance, life indemnity and the noncancellable policy, are really of outstanding significance.

EXPERIMENTS

When, years ago, it became obvious that insurance against accidental death and against disability resulting from accidental injury and sickness was a needed and marketable commodity, it soon became equally obvious that in devising, marketing and complying with the essential coverages—which, after all, in themselves were relatively simple—conditions existed which had not been thoroughly or at all anticipated and allowed for, and which were, in those days of the beginning, perhaps, not susceptible of complete anticipation. The insurance companies found it easier to propose than to dispose. In course of time, with better organization, as experience became available on a wider and wider basis, and more thorough and practical statistics were compiled, the unfavorable conditions were better understood and better guarded against. But the fact remained, and remains today, that after the happening of the initial event, the accident or the sickness which brings the disability coverage of the policy into play, the ultimate outcome—the ultimate payment—the ultimate

loss—depends upon the moral stamina as much as upon the physical qualities and condition of the assured; depends upon the skill, knowledge and integrity of attending physicians; depends upon the promptness and co-operation of the assured with respect to treatment, and upon other like factors, which need not be the same in any two otherwise similar cases, and which, as they vary, affect beyond possibility of scientific check or *ex post facto* control, the fortunes of the company. These varying and variable conditions and possibilities have tremendously influenced and have seriously retarded the growth of the business.

Recurring again to the classic instance above cited of the London Company's provision of ten pounds for medical fees: upon every reasonable theory that provision should have operated to the physical benefit of the assured and to the financial benefit of the Company; perhaps it did operate to the physical benefit of the assured, but not to his moral benefit and not to the Company's financial benefit, but the contrary. As a consequence, it was abandoned. Years later, when the companies were better organized for the selection of risks, for the control of medical attendance, and for the investigation and adjustment of claims, the factors of physical benefit to the assured and financial benefit to the company took on an added value and importance outweighing the deterrent factors; and the medical fees were restored to the policy, and others, such as hospital and nurses fees and the like, were added thereto.

But in the meantime, the factors of uncertainty, the ultimate extent and effect of which were within the control of the assured and not of the company, were still affecting the development of the various lines. The problems thereby presented were solved by one

company in one way, by another company in a different way; substantial benefits were provided under the insuring clause, so-called, of the policy, and, as therein provided, were in the conditions and exceptions so hedged about with limitations, so qualified, as in almost every instance to be diminished and in some to be aborted. Conditions were such that it required a combination of the talents and skill of a grammarian, of a lawyer, and of a physician, to determine in advance just what the policy offered under any given condition. And even so, the guess of one expert was as good as the guess of another; added to which, in instances and by certain companies, efforts were made to handle the situation before the loss by a sliding scale of premiums; and by others, after the loss, by close and, in some instances, shady processes of adjustment.

Nevertheless, here and there, underwriters of outstanding ability, of sound vision, and the courage of their convictions, were experimenting with extensions of coverage and the effect of scientific and consistent risk selection and adequate and informed claim adjustments upon the deterrent and otherwise uncontrollable factors, and gradually the accident policy was extended to cover practically every character of accident with limitations directed only to the effect of pre-existing, concurrent, or subsequent bodily diseases or infirmities upon the extent or duration of disability; and the health policy, from the half dozen or more of specific diseases first covered to a general coverage, subject only to limitations directed to pre-existing and existing physical conditions.

STATE ACTION

During this period, the insurance departments of the states had been awakening gradually to the existing

turmoil and confusion, the resultant variances in court decisions, in treatment of policyholders, the ensuing unhappiness of the companies, and the more or less general dissatisfaction upon the part of the insuring public. Accordingly, upon the basis of the standards set by the more advanced and enterprising companies, the states began to enact the so-called standard provisions law, the effect of which was to reduce to some degree of uniformity, at least, the operation of the various coverages and to protect policyholders in the more fundamental of their rights. And in due course, some twenty-eight of the states have adopted essentially similar standard provisions laws. The standard provisions, however, while serving a valuable end, tended rather to affect, regulate and secure the rights of the policyholder after the event of loss than to assure him a basic, satisfactory coverage. With respect to the formulation of the basic coverage, the companies have been left to follow pretty much their own devices. It may be said with reasonable pride that they have been by no means remiss in the performance of what amounts to a vital duty. Policy provisions have been simplified and clarified to a point where the contract, though perhaps longer than in its earlier forms, is very much clearer and does actually deliver, when the occasion arises, a pre-understandable and an easily determinable benefit. Adjustments are made with admirable consistency upon the established basis and to the satisfaction of the policyholder. As conditions which, in the earlier stages were necessary for the protection of the company, have been found in view of better knowledge and sounder and broader facilities of a later day to have become unnecessary for the company and unduly burdensome to the assured, they have been revised or abandoned.

CONDITIONS OF DISABILITY

An outstanding instance is the heretofore well nigh universal prerequisite of house-confinement as a condition for the payment of total disability benefits under both accident and health policies. At one time, that was considered to be almost the only certain, open and visible test of total disability, and perhaps it then was. But experience showed that it did not always protect the companies against the dishonest policyholder; that it was in many instances unfair to the honest policyholder; and, accordingly, that it was neither an accurate nor an infallible measure of total disability. Sentiment upon this point has now apparently crystallized; and, while house-confinement is still a useful test in certain instances, and is retained for the special and low-priced coverages in which it serves an economic purpose, its use as a universally essential limitation is believed to have been finally abandoned.

There has been a somewhat similar history with respect to the once rigid requirement of immediate, total and continuous disability as a condition precedent to the payment of specific benefits; and the representative policies are today more liberal in this respect. The period within which the specific loss, or the death, must occur, is gradually being lengthened without regard to the intervening disability; and the provisions indicate a praiseworthy effort to make the policy as elastic and responsive to variable conditions as ordinary prudence, based upon the story of experience, will permit.

It is interesting to note the effect upon the business of the fact that the accident policy was primarily designed to cover the loss resulting from extraordinary hazards, as for instance the railroad ticket policy with which the one great company which has been

operating continuously since 1863 entered the field. As the policies were in due course extended to cover all classes of accident, the special hazard of travel seemed to have lost its significance. So real a need and so tremendous a talking point were not, however, to be always overlooked, and some thirty years later, in 1895, or thereabouts, the original principle was again discovered and applied by the expedient of doubling the benefit for death and disability resulting from travel upon certain classes of public conveyance. Recent years have seen an extension of the additional benefits to accidents occurring in public buildings, during fires, and the like, with, indeed, a provision for triple benefits in certain cases; have seen also the development of special forms for the extra hazards of daily existence under the strains and stresses of modern civilization; and the now widespread use of the identification provision, under which the companies pay, usually within a limit of \$100, the expense necessary in case of accident, to transmit information, and to place the assured in the hands of his family or his friends. While this is past and present history, it is none the less indicative of ever-present seeds of growth which will germinate as occasion requires, and upon which the future may be predicated.

The waiting period, as a period of disability precedent to payment of benefits, has again become a factor of importance, as a check or control upon other factors which are in and of themselves not readily controllable. Apparently by way of being abandoned, it has again manifested its vital force. It is a device by means of which better insurance may be provided at a lower rate; it is an obvious aid in the difficult process of risk selection under health coverages; and it is a *sine qua non* of sickness benefits under the life indemnity and noncancellable forms.

COVERAGE AND INDEMNITY BASES

Opinion and treatment of the character of accident upon which accident-benefit coverage shall be based is still in a state of flux. The original policies covered, more or less, death or disability resulting from "personal injury by accident." The courts, in their immediate and eager application of the rule that a contract, if it be for construction at all, is to be construed against that one of the parties thereto which dictated its content and terms, early showed the companies that they had inadvertently covered too much ground. There followed an effort to so define, limit and circumscribe the word "accident" as to hold the coverage within the scope of its primary intent; and out of that effort has grown the great bulk of accident insurance litigation. The device of limitation which best withstood attack was found in the cover-phrase,—"*accidental bodily injuries effected independently and exclusively of all other causes through external, violent and accidental means.*" Under such a clause it is indeed difficult to recover for any event which is not in fact and in truth an "accident." No more effective phrase has been invented. And in the early days such a limitation was an utter necessity. Slowly, however, it was realized that, with careful basic underwriting, intelligent risk selection, and competent adjustment, the rigor of the clause might perhaps be somewhat abated, at least in the forms of comprehensive coverage and universal appeal; and here and there the ocular and demonstrable proofs (proofs independent of results) established by the words "*violent*" and "*external*" were abandoned, and, again, the tests of pure accident, established by the words, "*independently and exclusively of all other causes*"; so that there are many forms which now cover "*bodily injuries ef-*"

ected independently and exclusively of all other causes directly through accidental means," and some which cover "accidental bodily injuries," the coverages, of course, including resultant death. It is too early to predict the ultimate development in this direction. The elimination of unduly restrictive qualification upon coverage is an end devoutly to be sought. But, after all, the fundamental line between the results of accident on the one hand, and upon the other, of accident and disease, or of disease alone, must be observed so long as there are separate or even different benefits provided for the respective disabilities. And, inasmuch as the division seems to be as fundamental as the demarcation, and the need for separate coverages inherent in the business, it would indeed be a temerarious assault upon the prophetic verities to predict any further immediate appreciable advance along this line.

The ultimate treatment of the accumulated benefit is likewise a matter of uncertainty. Devised as a means to provide the assured with a substantial interest in the continuance and renewal of his policy, it developed the rather natural evil, that upon any renewal date the policy might be placed in another company and by it endorsed to provide the sum of the earned accumulation, so that the transfer would cost the policyholder no additional benefits, the right to which had accrued under the policy. In some states the very valid objection was urged to this proceedings that it constituted discrimination and rebate; and departmental effort was made, here and there, to force a discontinuance of accumulations. While this was not successful, it resulted, upon the part of many of the companies, in the addition of the full accumulation to the face of the policy as of date of issuance. In some forms, generally, and by some companies for

special forms, the original plan is still followed. The part it plays in the scientific scheme of accident and health insurance is perhaps of questionable value, and probably the future will not be greatly concerned with it.

The vitality of the business, its universal appeal, and its economic possibilities are indicated by the adaptation of many of its principles by the leading life companies for use in connection with life insurance, as exemplified by provision for double benefits in event of accidental death, period payments in event of total disability, and acquittal of liability for further premiums under like conditions. And upon this point, the furore created by various newspapers of national reputation, in the sale of restricted policies as an incident to term subscriptions, is not without interest. While sporadic and perhaps insignificant considered as a separate development, the result has been a tremendous advertisement, out of which will grow a future demand. Insurance helps to sell itself. The more insurance the more insurance.

SPECIALIZED INSURANCE COVERAGES

The adaptability and responsiveness of the business is illustrated in the variety of coverages designed for special uses and purposes. Of significance are the special automobile policy, which sells for a premium well within the reach of the entire membership of the insuring public, which covers effectively against the special but ever-present hazard of injury or death through the agency of motor vehicles; and the similar travel accident policy, which covers against the special hazards incidental to traveling. These forms, by virtue of the limited class of accidents covered, are sold practically to all alike, without reference to the ordinary classifications.

Of perhaps even greater future im-

portance is the deferred payment policy which is adapted to meet conditions arising upon the unparalleled extension of credit purchases on the instalment basis. This coverage is designed to protect the purchaser upon credit in the periodical payments, which his contract of purchase compels him to make, and which, by reason of loss of income from accident or sickness, he may be unable to make. Designed to relate solely to the protection of deferred payments, it is narrower in scope as respects period of coverage and duration of payments than the ordinary policy, and hence can be sold at a greatly reduced premium, but nevertheless serves exactly and adequately the purpose of the purchaser. Used first in connection with the purchase of automobiles, it has gradually been extended to cover all important classes of deferred payment. In this category likewise belongs the group accident and health policy, which has been developed to a point where it is adaptable to almost every necessary use and purpose; which simplifies the sale of such insurance, tends to place it where it is most needed, and to reflect in a reduced premium the savings effected to the companies by what is, after all, a form of wholesale insurance. Experiment is being made with similar special forms for hospital and nurses' benefits, which promise to supply a definite need.

RESPONSIVE DIVERSITY IN FORMS

The development of newer, broader and specialized coverages by no means implies an abandonment, present or future, of the older and narrower forms. On the contrary, these are being retained to serve the purpose of that portion of the insuring public whose needs, indeed whose very whims, they may more satisfactorily supply. Today, then, from the one company, here and there (though not from all companies,

the development has not yet reached that stage), the citizen may purchase a disability, an accident, or a health policy, providing, as he may desire, variant tests of total disability: such as house-confinement, inability to perform any of the duties of his occupation, or inability to perform the duties of any occupation whatsoever; policies which provide for fifty-two weeks' indemnity, or 200 weeks', or life indemnity at the full rate of weekly benefits, or at full benefits for a period and thereafter at a percentage of full benefits for life; policies with a waiting period of total disability antecedent to the payment of benefits and policies without such antecedent period; policies which indemnify for loss of time only, or for loss of life only, or providing a reasonable scale of variants in either or both classes of indemnity; policies which cover against any and all disability from special hazards; policies which cover against certain losses from any and all hazards; policies the benefits under which are to secure the payment of contractual obligations; policies which cover against all hazards except those produced by deliberate intent of the assured, including even the hazard of aviation; policies which provide special additional benefits; policies which provide optional benefits to facilitate the determination of what might otherwise constitute vexatious problems of disability; policies which are noncancelable. In all of these the relative differences and distinctions are adequately recognized and compensated for in the premium basis, the age basis, the occupational basis, or by controlling underwriting, and policy conditions and limitations, as may be requisite. A field of selection which is, indeed, as varied as the human need for such insurance; and which will unquestionably be extended as additional needs develop.

STANDARDIZATION

There is a substantial advantage to the public in the diversified choice of available coverages; and there is also a disadvantage inherent in the diversity itself, in that proper and adequate coverage, though readily available, is not always sold, and that policyholders do not always know the effect and extent of the coverage purchased. This has resulted not infrequently in troublesome adjustments and general dissatisfaction. The fear that under the circumstances, human nature, politically expressed, would seek to foster and impose the theoretical ideal of a standard form, was realized not long ago in the action of the insurance department of a western state, which sought upon the authority of the statute prescribing the standard provisions, and by virtue of alleged evils growing out of "the multiplicity and variety of health and accident policy forms and the different conceptions of the rights of claimants manifest in claim settlements," to compel the issuance by all companies in the state of a standard form embodying the ideas unsuccessfully urged by the department for years prior thereto, which related in the main to indemnities, and which sought in effect to eliminate the payment of valued benefits based upon the condition of house-confinement or disability, continuous or otherwise, or for specific losses as of a hand, a foot, of sight or hearing, and to substitute therefor indemnities for actual loss sustained,—specifically for loss of life, for loss of time, and for loss other than loss of time (which would have resulted in the scrapping of practically every present form of policy); to compel coverage of all hazards except those specifically excepted (which would have resulted in the complete elimination of the special automobile, travel accident, and similar

forms); to abolish accumulations; and to abolish the use of renewal receipts. The department opened hostilities by an announcement on October 23, 1923, that on and after March 1, 1924, no company which refused to comply with the order for the issuance of the proposed standard form could procure the renewal of its license. At this frontal attack upon the entire theory and concept of the structure of accident and health insurance, the companies sought the aid of the courts, and procured an injunction, restraining the commissioner from refusing to renew the licenses, and in the case of *State ex rel Time Insurance Company et al. vs. Smith, State Commissioner of Insurance*,¹ were completely successful in their resistance to the order, and in establishing, let it be hoped once for all, that freedom of contract in insurance, subject only to reasonable and explicit state regulation, which is still a part of our constitutional heritage.

Nevertheless, there is a significance in the effort, however unsuccessful, of the Wisconsin department to force upon the companies a standard form. It is symptomatic of what is perhaps more a desire than a need, but even so, of a desire widespread and genuine. And the future may hold for us, if not a standard form as such, at least some certain and definite unified coverage, under a standard name which, wherever and by whatsoever company sold, will carry with it the almost universally standard values found now in automobile, liability, life and fire policies. That the question is of interest and importance is indicated by the action of the Health and Accident Underwriters' Conference in appointing a committee to determine upon definite recommendations for uniform phraseology of the more important policy-provisions. It remains, however, that the ends to be

¹ (Wis.) 200 N. W. 65.

served by accident and health insurance are so varied and various as compared with any other class, that such a standard form must, unless the interests of the insuring public are actually to be disserved by it, be but one of many coverages, the number of which, experience teaches us, will in the future increase rather than diminish.

LIFE INDEMNITY AND THE NON-CANCELLABLE FORM

The progress of the business in the two outstanding developments of modern times, life indemnity and the non-cancellable contract, is being hampered, the first by the courts, and both by the effect thereon of the great principle of insurance herein before adverted to.

If the decision of the Circuit Court of Appeals of the Sixth Circuit (upon appeal from the District Court for the Middle District of Tennessee) in the case of *Federal Life Insurance Company vs. Rascoe*,² which the Supreme Court of the United States refused to review upon writ of certiorari, is to stand as the ultimate law regulating the assured's right to the recovery of disputed benefits in permanent total disability cases, the day of life indemnity, whether for disability resulting from accident or sickness, is over. In that case, upon the sole issue, from the company's standpoint, that the assured's disability, and consequent right to benefits under the policy, had terminated, an action was successfully maintained by the assured, not for the recovery of benefits as such, but for damages as for the breach of the entire contract of insurance, the measure of which should be the assured's life expectancy under the standard life tables admissible in that court. Upon a policy paying life indemnity at the rate of \$25 per week, the assured recovered a lump sum verdict of \$21,-

² Reported in 12 F. (2d) 693.

518.98. A study of the opinion of the court and of the vigorous dissenting opinion filed by one of the Circuit Judges, indicates that the case, although one of first impression, need not necessarily serve as a precedent in future cases.

In general, the experience with life indemnity for disability resulting from sickness, has been unfavorable in the extreme; so that the tendency is rather to revert to the long established limit of fifty-two weeks for ordinary use, with an occasional form providing for two hundred weeks. Accident life indemnity is more satisfactory and is believed to have come to stay.

Experience with the noncancellable form has been still more unfortunate. Promising, as it did, a solution of one of the most vexatious problems in the business; offering perhaps the only means of raising it to the sound and adequate plane of life insurance, the noncancellable form has unquestionably been a bitter disappointment to the business at large. For this there are many reasons, perhaps none of which will be found in the long run to be either permanent or insurmountable. The cost is high, which intensifies the tendency of the undesirable risk to seek the coverage, and thus operates to increase the difficulty of proper risk selection. Non-cancellable business in general, by virtue of the medical examination, the commission basis, agency relations, etc., ramifies rather into the structure and organization of life than of casualty insurance, which well accounts for the fact that its transaction is now confined mainly to the life companies; and with the general difficulties inherent in the line, accounts also for the fact that even of the life companies only a small number are actively interested. Reserves have been a serious stumbling block, but official steps are now being taken toward

simplification and reasonableness. Over the whole is the chilling factor of uncertainty born of lack of definite statistical and underwriting experience.

IN SUMMARY

Notwithstanding which, reading the future by the past, it is not too much to hope that this desirable and widely needed form, the advent of which was prophesied by leaders in the business years ago, will gradually, through a series of necessary mutations, come into its own and stand thenceforth as the flower and pride of accident and health insurance.

Since the enactment of the standard provisions, and aside from the effort of Wisconsin in the matter of the standard form, and minor attempts upon the part of one or two other states to read the laws as statutes of rigid limitation rather than of helpful regulation, the departments have been co-operative and the companies have been given a free hand in the solution of their trou-

bles, in the correcting of the occasional evil, and in the rational expansion of the business quantitatively and qualitatively as well. They have been alive to the possibilities and keen to procure their realization.

When all is said and done, the modern trend is a consistent trend of progress and adaptability. Through competition of companies, intelligent reaction in the conflict with immutable human and economic principles, decisions favorable and adverse of our various courts of last resort, and the extension of the old and development of new possibilities, has come about an adjustment and readjustment of policies in their various component parts and of properly reflective coverages which is not now, no more than a decade or a half century ago, indicative of a fixed status, but rather of a healthy and continuous growth, and which augurs well for the ultimate establishment of the line as one of the greatest in the insurance field.

Automobile Insurance

By H. P. STELLWAGEN

Secretary-Treasurer, National Bureau of Casualty and Surety Underwriters; formerly
Manager of its Automobile Department

IN a little more than twenty-five years automobile insurance has developed from an insignificant side line to a coverage of the first importance to both fire and casualty companies.

Automobile insurance came into being to meet a definite need, namely, the need of the motorist for protection against financial loss arising from the ownership and operation of an automobile. The automobile, when set in motion, is a potentially dangerous instrument, capable of inflicting personal injury, and death, and property damage. Furthermore, the automobile, like other property, may be damaged or destroyed by fire and by action of the elements. Being movable, it may be lost through theft, or damaged, or destroyed by impact with another object either moving or stationary.

AUTOMOBILE HAZARDS

A brief consideration of the automobile hazards as they exist at the present time indicates that automobile insurance is a greater need today than ever in its history. During 1926, approximately 23,500 people were killed in automobile accidents, and 700,000 injured. In the same year, there were more than 2,000,000 automobile accidents involving property damage. This tremendous loss of life and limb in automobile accidents is particularly distressing from the humanitarian and social standpoint, and is a direct challenge to the conservational and accident preventative ability of the United States. From the economical standpoint the situation is a serious one, be-

cause the law holds each man responsible for his own acts, and if it can be shown that injury, or death, or property damage is caused by the negligence of the motorist and that the individual injured in person or property or killed was not guilty of contributory negligence, then the motorist is liable under the law for damages commensurate with the injury inflicted. A conservative estimate shows that the motorists of the United States suffer, annually, a loss of \$350,000,000 as a result of damage suits.

It has been estimated¹ that 60,000 cars are totally destroyed each year by fire and that the monetary loss through fire amounts to \$75,000,000. Approximately 100,000 cars are stolen and the total loss through theft—either of the entire car or of its equipment—approximates \$90,000,000. Because of the lack of statistical data, the damage caused by collision of automobiles with other objects, moving or stationary, cannot be measured, but the aggregate cost must be considerable.

FIVE PRINCIPAL FORMS OF INSURANCE

There are five principal forms of automobile insurance which collectively protect the motorist against all the hazards enumerated above, namely: Public Liability, Property Damage, Fire, Theft and Collision Insurance.

A policy of *Public Liability* Insurance undertakes to indemnify the motorist (the assured) for loss arising from his legal liability to others for bodily in-

¹ By A. J. Donohue, Assistant to the Manager, National Automobile Underwriters' Conference.

juries, including death, suffered in any accident due to the ownership, maintenance or use of the automobile insured. Similarly, a *Property Damage* contract indemnifies the motorist for loss by reason of his legal liability to others for damage to or destruction of any property (not his own or in his charge) in an accident due to the ownership, maintenance or use of his automobile.

Fire and Theft Insurance need no description. A *Collision* policy reimburses the motorist for the damage or destruction of his automobile if caused by an accidental collision or impact with another object or by upset.

From the standpoint of the motorist, Public Liability Insurance is most important, because it offers protection against a loss which by its nature is unlimited and which may be of such a size as to engulf all the material possessions of the automobile owner. Fire and Theft Insurance are perhaps next in importance, protecting as they do the capital represented by automotive equipment which in the case of fleets, for example, is considerable. Property Damage Insurance is equally important because, while the damage which an automobile may inflict is usually limited, there often arise severe property damage losses seriously affecting the motorist's solvency. Last in importance is Collision Insurance.

The general importance of insurance and the specific necessity for Public Liability Insurance is evident from the following newspaper article:

HEAVY CLAIMS IN TRUCK CRASHES BANKRUPT BROOKLYN CONCERN

The Monroe Contracting and Supply Company, 272 Monroe Street, Brooklyn, filed a voluntary petition in bankruptcy in the Federal Court, Brooklyn, yesterday, listing liabilities of \$221,666, nearly \$200,000 of which are judgments for personal injuries obtained by persons struck by the

company's trucks. The assets include trucks valued at \$20,000 and \$500 in other property.

The Company attempted to save money by not carrying liability insurance, it was said, because of the high premiums. A special fund to meet liabilities in accident cases was established, but proved insufficient.

PREMIUM VOLUME

In the year 1925, the automobile premium writings of all companies doing business in the United States was:

Coverage	1925 Premiums Written	Per cent of Total
Public liability.....	\$144,000,141	43.2
Property damage ...	59,273,460	17.8
Fire.....	46,272,959	13.9
Theft.....	42,401,760	12.7
Collision.....	41,227,998	12.4
	\$333,176,318	100.0

The future development of the business may be visualized when it is remembered that today, of the cars on the road in the United States, only sixteen per cent are insured for Public Liability, thirteen per cent for Property Damage, two per cent for Collision, and perhaps thirty-three and a third per cent to fifty per cent for Fire and Theft.

In only a few states do the laws permit a single company to write all five forms of automobile insurance. In most states, casualty insurance companies are not permitted to write automobile fire insurance and fire insurance companies are not permitted to give automobile public liability coverage. In actual practice most of the property damage insurance is written in conjunction with public liability insurance in casualty companies. Fire and Theft are usually combined in one contract issued by the fire companies. Collision Insurance is often provided by rider or

endorsement attached to the basic public liability or fire contract, and the collision business is about equally divided between the fire and casualty companies.

THE POLICY CONTRACT

The policy contract is an important document. It sets forth the insuring agreement, the conditions, limitations and exclusions to which that agreement is subject, and the declarations upon which the risk is classified and rated and upon which the whole contract is predicated.

The public liability and property damage contracts are alike in that they are both third-party liability coverages. That is to say, the insurance company (party of the first part) agrees to indemnify the policyholder (party of the second part), for loss arising in connection with accidents involving—not his own person or property—but the person and property of *another* (party of the third part). Fire, theft and collision contracts, on the other hand, are direct two-party agreements whereby the insurance company reimburses the policyholder for loss of, or damage to, his own automobile.

PUBLIC LIABILITY

The Insuring Agreement.—The insuring agreement in the public liability contract provides that the company will indemnify the policyholder (the assured) against loss from the liability imposed upon him by law for damages on account of bodily injury, including death at any time resulting therefrom, accidentally suffered by any person or persons as a result of the ownership, maintenance, or use of the automobile described in the policy. In addition the company agrees to defend all suits for damages, even though groundless, to investigate all accidents and negotiate settlements of claims, and to pay

all court costs and expenses arising from any legal proceeding defended by the company, all interest accruing after entry of judgment, and all expenses incurred by the assured for immediate surgical relief imperative at the time of the accident.

These agreements apply to all accidents occurring within the United States and Canada during the term of the policy, which is usually one year. The policy does not, however, cover the liability of the assured if the automobile is operated (a) by any person under the age limit fixed by law or under the age of sixteen in any event; (b) in any race or speed contest; (c) for purposes other than those set forth in the declarations. Furthermore, the policy does not cover any liability imposed by a Workmen's Compensation law nor does it cover the assured's liability for injuries suffered by his employees while engaged in the duties of their employment, other than domestic servants who do not operate or care for the assured's automobile.

An important feature of the public liability contract is the so-called Omnibus Coverage clause. The word "omnibus" has in this connection the Latin meaning "for all," and the omnibus clause extends the insuring agreements of the policy so as to apply to any person while riding in or legally operating the automobile described, and to any person, firm or corporation legally responsible for its operation, provided such operation is with the permission of the assured or of an adult member of his household. This clause is not contained in policies covering public passenger carrying vehicles and garages.

The use of the Omnibus Coverage clause is indicative of the later and more liberal view that the insurance should follow the car rather than the individual named in the policy. To-

day, the policies issued by practically all reputable companies cover all persons and interests (subject of course to the provisions and basic limitations of the policy) liable for the operation of the automobile insured. The use of the Omnibus clause is not entirely universal and it is therefore particularly important that the motorist see to it that his policy contains the broad coverage which that clause affords.

The Bankruptcy and Insolvency clause is another important feature of the policy which has the effect of making it a contract of insurance rather than a contract of indemnity. It provides that the bankruptcy or insolvency of the assured shall not release the insurance company from the payment of loss thereunder, and that if execution against the assured is returned unsatisfied, the injured person, or his personal representative in case of death, may maintain an action against the company for the amount of the judgment obtained.

Conditions and Limitations.—The automobile public liability contract contains the usual conditions respecting the co-operation of the assured, prompt notice of accidents, cancellation procedure, inspection and other provisions necessary to the insurance transaction. Certain monetary limits are placed on the liability of the company and these deserve careful consideration.

The contract provides that the liability of the company shall be limited to the sum of \$5000 as respects the injury or death of one person and subject to that amount per person to a total of \$10,000 for all injuries including death arising from any one accident. These limits of \$5000 and \$10,000 respectively are known as standard limits and are commonly referred to as "five and ten."

Policies can be and are in a great

many cases written for higher or "excess" limits. In fact, over half of the automobile public liability policies issued by the casualty companies in the United States are written for limits of ten and twenty and higher. Verdicts are constantly increasing and the motorist possessed of a fair amount of property needs at least ten and twenty limits if not twenty-five and fifty. The following verdicts recently rendered in connection with automobile accident damage suits indicate that the standard five and ten limits are no longer adequate:

The Supreme Court of Brooklyn, New York, returned a verdict of \$20,000 for William Fallon, a chauffeur whose arm was paralyzed as a result of a collision between his car and the defendant's car.

Miss Helen Mooney was awarded \$50,000 damages from the owner of a truck which ran her down inflicting serious permanent injuries.

The Appellate Division of the State of New York sustained a verdict in the sum of \$20,138 rendered by a jury in the Supreme Court in favor of Mrs. Grace McGinley in connection with the death of her son who was run down by an automobile.

PROPERTY DAMAGE

The Property Damage contract resembles the Public Liability contract very closely except that it is concerned with damage to or destruction of property instead of personal injury and death. The insuring clause definitely excludes coverage for property of the assured or property in the custody of the assured, property rented or leased, and property carried in or upon the assured's automobile.

The Property Damage policy is written for a limit of \$1000 which applies to all damage sustained as the result of a single accident. Here again, insurance may be obtained in amounts greater than the standard limit of \$1000.

COLLISION

The Collision Insurance contract indemnifies the automobile owner against the actual loss of or damage to his automobile if caused solely by accidental collision with another object fixed or moving or by upset.

Collision Insurance is written as a full coverage form and as a deductible form. Under the full coverage form, the insurance company undertakes to reimburse the automobile owner for any loss, no matter how slight. Obviously, the premium for this form of insurance is high, because the insurance company is called upon to pay damages for the great number of scratches and dents which the automobile suffers in ordinary operation through traffic.

Under the deductible form of policy each claim is separately adjusted and from the amount of each claim a certain fixed sum is deducted and the insurance company is liable for loss in excess of that amount only. Thus, under a \$50 deductible form, the policyholder pays all small losses of \$50 and less, and also pays the first \$50 on all losses exceeding that figure. The insurance company pays that which remains of the loss after \$50 has been deducted. At the present time, the popular deductibles are in the amounts of \$50, \$100 and \$250. The cost of deductible collision insurance, especially on the larger deductibles, is small because the company is obligated to pay only the large losses which ordinarily are a burden on the assured.

FIRE

The Automobile Fire Insurance policy indemnifies the automobile owner for loss or damage to his automobile caused by the perils of fire, lightning and transportation. The insuring agreement provides that the company will pay loss through fire "arising from

any cause whatsoever" and further provides reimbursement for the assured in the event that the automobile is damaged or destroyed through the sinking, collision or derailment of any conveyance upon which the automobile is being transported on land or water.

Limitation of Liability.—The form of contract in most general use today is called the "non-valued" form and the company's liability is limited to the actual cash value of the automobile insured at the time loss or damage occurs.

Several years ago, the "valued" form was quite common and under that contract the assured was entitled, in the event of total loss, to all of the fixed sum stated in the policy at its inception date. This "valued" form was discontinued because of the opportunity which it gave to unscrupulous assured to make money under their policies when the value of the automobile at the time of destruction was less than the fixed sum stated in the policy.

The present "non-valued" form usually contains a fixed sum which limits the company's liability in any event, subject always to the actual cash value of the property at the time of its destruction. There has been a growing sentiment, however, to eliminate the fixed sum altogether and to write a "no amount" policy. The adjustment of losses under the "no amount" policy is made on exactly the same basis as under the regular "non-valued" form, but it is contended that the elimination of the fixed amount will obviate much of the unhealthy competition among agents in constantly seeking the naming of higher amounts of insurance in policies. Then, too, the elimination of the amount of insurance will remove the suspicion which formerly obtained in the minds of many assured, who felt that they were being cheated if they

obtained less than the amount stated in the policy in the event of total loss.

In certain congested centers of population where the risk of insuring automobiles against the perils of fire is particularly severe, most fire companies have restricted the coverage afforded by the use of the "three-fourths value" clause, whereby the company's liability is limited to an amount not greater than seventy-five per cent of the actual cash value of the automobile at the time of its damage or destruction.

THEFT INSURANCE

The insuring agreement of the Theft contract indemnifies the automobile owner against loss or damage to his automobile through theft, robbery and pilferage.

The standard theft contract does not cover theft by any person in the assured's household or in his service or employment. Furthermore, the contract does not cover the theft, robbery or pilferage of tools or repair equipment except in the case of the theft of the entire automobile. There are certain other exclusions dealing with voluntary parting with title, wrongful conversion by a mortgagor, etc., which should be carefully understood by the policyholder.

The "three-fourths value" clause previously described for fire insurance has its application to theft insurance under extra-hazardous conditions, and the theft coverage may be even further restricted by excluding coverage on motor meters, extra tires, tubes, rims, wheels and extra or ornamental fittings, unless the entire automobile is stolen. The loss arising from the theft of equipment has been so severe that the standard companies have discontinued the writing of the unlimited coverage entirely in some parts of the United States. In other territory policies are

usually written on the restricted basis but full coverage is sold for an extra premium.

BASIS OF PREMIUM CHARGES

The rates for all five forms of automobile insurance vary territorially. For example, rates for public liability and property damage insurance are highest in New York City and lowest in the rural districts of the South and West. As might naturally be expected, these territorial rate groups or zones are most numerous for public liability and property damage because of the considerable variation in the traffic hazard throughout the United States and the number of zones is least for fire and theft insurance.

Automobile rates also vary by four main divisions or types of risks. There is a distinct set of rates for cars of the private passenger type, another for commercial cars and trucks, a third for public passenger carrying vehicles, and a fourth for garages and dealers, the last being a type of risk rather than a particular type of vehicle. These four main types are further subdivided into what are known as classifications. For example, cars of the private passenger type are divided, for the purpose of public liability and property damage insurance, into three groups dependent upon the following criteria: horsepower, shipping weight, wheel base, engine displacement and list price. For purposes of collision insurance, the private passenger cars are divided into ten groups reflecting relativity in list price and type of construction, and are further subdivided into "new" cars and "old" cars, "new" cars being defined as cars purchased new not more than six months prior to the date of the attachment of insurance. For fire insurance, cars of the private passenger type are divided into four age groups; for theft, there is no differential for age,

and there is a further classification on the basis of the car's susceptibility to the fire and theft hazards.

Cars of the commercial type are subdivided as respects public liability and property damage insurance into classifications depending on the load capacity of the vehicle and the business in which it is used. Cars of the general category of public passenger carrying vehicles are in turn subdivided into the taxicab, private livery, public livery and jitney and bus classifications.

Under certain conditions discounts are allowed from the established rates for the attachment of devices tending to decrease the hazard. For example, a ten per cent reduction from the collision rate is allowed for the attachment of an approved front bumper on private passenger cars, and an additional two and one-half per cent discount is allowed for the attachment of an approved rear bumper. Discounts of fifteen per cent and twenty per cent, dependent upon the nature of the device, are allowed from the theft rate if the automobile is equipped with a locking device. All these devices are tested and approved by the Underwriters' Laboratories, Inc., of Chicago, which acts for a number of the insurance companies as an engineering advisory body.

AUTOMOBILE RATE-MAKING

Automobile rates are developed from the experience, *i.e.* the loss records, of the insurance companies. The rate-making activities of the stock companies are centered in the National Bureau of Casualty and Surety Underwriters, and the National Automobile Underwriters Conference. The National Bureau develops public liability rates; the National Conference fire and theft rates, and these organizations co-operate as respects property damage and collision.

The individual companies, members of these organizations, keep detailed records of cars insured, premiums collected, and the losses paid on the business which they individually insure, and the data of all companies are submitted to the national organizations for compilation and analysis. By this system of cost analysis, it is possible to ascertain the cost of insuring automobiles against the various hazards in particular communities and in particular classifications. This analysis goes into great refinement, especially for the casualty coverages. Under the system used by the casualty companies, for example, it is possible to ascertain the cost of insuring automobiles in each of two hundred and fifty or more territories.

The rate for automobile insurance, like the rate for other kinds of insurance, is made up of two elements: first, a loss element which is ascertained from the loss experience of the companies; and second, an expense element which is obtained from the accounting records of the companies and shows the cost of doing business. A moderate factor for underwriting profit is included with the expense loading.

As the science of rate-making has advanced, automobile rates more and more reflect the actual conditions of a particular community which make for the hazards against which insurance is provided. The public liability rates, for example, are an index of the frequency of personal injury accidents in relation to the cars on the road in different cities and states. This fact is of considerable public importance because it indicates that the individual community may, in a sense, control its own insurance rate by taking such measures as will reduce the frequency of accidents in relation to the insured automobiles.

EXPERIENCE RATING

Experience rating is made available to the owners of fleets of ten or more automobiles insured for at least two years in connection with automobile public liability and property damage insurance. Experience rating may be defined as a mathematical process of determining the departure of the individual risk experience from the experience of the classification into which it has been placed for rating purposes, and of recognizing that departure by a credit if the individual risk experience is better than the classification experience, or by a debit if the individual experience is worse than the average experience.

In other words, if the individual fleet operator, by the employment of careful, responsible operators, by the use of proper equipment, and by the exercise of eternal vigilance, succeeds in cutting down his accidents so that his individual record is better than that of a majority of the risks in his classification, he may be rewarded for his activity by a discount from the base or manual rate for his insurance. Conversely, bad risks, which, through mismanagement and carelessness, produce an unfavorable loss record, are penalized by the application of a debit or charge to their basic insurance rate. Quite obviously, the experience rating plan puts a premium on carefulness.

Individual fire and theft rates are also developed for eligible fleets of automobiles, but the experience of the risk is only one of several elements taken into account in the development of rates.

PRESENT AND FUTURE PROBLEMS

One of the chief problems confronting the insurance companies today is the problem of the moral hazard. The moral hazard is difficult to define, but

it embraces the intangible human frailties and propensities which cannot be measured by any rating system and which cannot be accounted for in advance by a requisite premium charge. The presence of the moral hazard in fire insurance led to the abolition of the "valued" fire contract. The presence of the moral hazard in connection with collision insurance has made the full coverage form generally unprofitable, so that its elimination has been seriously considered by the underwriters.

In recent years a new element has been added to the moral hazard inherent in the writing of automobile public liability insurance, and that element is commonly known as the "guest" hazard. Close friends of the assured, in fact his immediate relatives, attempt to sue him for damages resulting from injury sustained by them while riding in his car. In ninety-nine cases out of a hundred there is collusion between the assured and the person bringing suit and were it not for the fact that the insurance company is obligated to stand behind the assured and reimburse him for loss, the suit would never be brought.

Attention has lately been centered on the question of whether or not the instalment payment of premiums should be permitted on individual car risks. It is felt by some that it should be possible for the purchasers of insurance to pay their premiums in three or four instalments and that the practice of requiring the payment of premiums in advance should give way to the new economic order of things. It is urged that such a system would reduce the resistance which is now encountered in selling insurance, especially in some of the larger cities where premiums are high. The opponents of that program feel that the instalment payment basis could not be applied without an expenditure upon

the part of the companies of a considerable sum to take care of a quadrupling of their statistical and accounting procedure. Furthermore, it is argued, the instalment plan is hardly

a feasible proposition for the average insurance agent who is compelled to devote most of his time to the soliciting of business and has little time left for the quarterly collection of premiums.

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Compulsory Automobile Insurance

By HARRY J. LOMAN, Ph.D.

Professor of Insurance, Wharton School of Finance and Commerce, University of Pennsylvania

THERE were 22,342,457 automobiles registered in the United States during the year 1926. This is an increase of 11.2 per cent over 1925 and about a 400 per cent increase for the past ten years. When marveling at the phenomenal growth of this now indispensable transportation convenience one is very apt to forget that each year it is exacting a human toll which in 1926 involved over 20,000 fatalities, upwards of 40,000 serious injuries and about 500,000 minor injuries. Moreover, these figures are increasing from year to year, although it is gratifying to know they have until the last two years showed a marked tendency to decrease on a per car basis.

Everyone agrees that from a purely humanitarian viewpoint every effort should be made to curb the losses and suffering occasioned by this juggernaut, but no adequate remedy has yet been found.

ECONOMIC LOSS CAUSED BY AUTOMOBILES

Aside from the humane aspect of the problem we must also consider the economic significance of this destruction of man power. It is frequently asserted that most of those injured and killed by automobiles are either children or aged persons. From the few figures which are available it would seem about twenty per cent of them are over fifty-five and about thirty per cent under fifteen years of age. Surely then it would be conservative to say that not more than twenty per cent have passed their period of economic usefulness, especially in this age of

preventive medicine when most children who live to be old enough to walk in front of automobiles have excellent chances of reaching maturity, providing one of the said automobiles does not hit them. If we assume the remaining eighty per cent otherwise might have enjoyed, on the average, twenty additional years of productive life, the economic loss may be calculated as follows:

(1) Eighty per cent of the 20,000 killed or 16,000 x 20 years = a loss of 320,000 productive years.

(2) If each of these years is valued conservatively at \$1000 the annual death losses amount to \$320,000,000.

(3) If we add the other serious and minor accidents which cause an economic loss equivalent at least to the losses resulting from death, we have a total of \$640,000,000.

To make matters worse, in most accidents the individuals and families who are least able to afford the loss of a productive member of a family are the hardest hit, especially since precious few of them find it possible to collect adequate damages.

We have before us then a twofold problem of reducing automobile accidents and indemnifying those who have suffered personal loss or injury. To attain these ends it has been suggested we have rigid enforcement of stringent traffic laws and more automobile insurance. In fact, the financial inability of many automobile owners to pay the consequences of ownership and operation of automobiles has given rise to a very insistent demand that the state shall bring compulsion to bear

on those who have not seen fit to meet their obligations voluntarily. Specifically this takes the form of compulsory automobile insurance. Although practically every state with densely populated areas has had compulsory automobile insurance laws proposed, thus far Massachusetts is the only state which has passed a comprehensive law of this nature.

MASSACHUSETTS COMPULSORY AUTOMOBILE LIABILITY SECURITY ACT

It may be of interest to summarize at this point the provisions of the Massachusetts law. At the 1925 legislative session a law was enacted known as the Massachusetts Compulsory Automobile Liability Security Act, which provides that before an automobile owner can obtain a license for 1927 he must present a certificate showing that he has provided for the payment of legal and valid personal injury claims arising out of his negligence, the claimant being faultless.

The form of the security may be:

- (1) A Motor Vehicle Liability Policy with limits of \$5000-\$10,000 or
- (2) A Motor Vehicle Liability Bond with the same limits or
- (3) A deposit of \$5000 in cash or acceptable securities.

In order to be certain that the evidence of financial responsibility is proper and adequate the insurance policies and rates must be approved by the State Insurance Department or if securities are used they must be acceptable to the Division of Highways.

The law does not apply to visiting non-residents who because of their short stay may not be required by law to register their automobile nor to the state or its political subdivisions, corporations subject to the supervision of the Department of Public Utilities,

street railways under public control and registrants now required by previous laws to furnish security.

REASONS FOR SCARCITY OF SUCH LAWS

If the bulk of the economic loss previously indicated falls upon the poorer classes and they go unindemnified, it may be asked why have so many states considered remedial legislation and failed to enact it? The answer is because such proposals have received only passive support and very active resistance.

Since most citizens are exposed to the danger of the automobile and desire to collect damages if they are injured, it would seem that this kind of legislation would receive almost universal support. However, such is not the case and the organized efforts of automobile clubs, insurance companies and the farmers have successfully prevented the passage of these laws.

Many arguments against this legislation have been presented by the opposing groups and it is our intention to enumerate and examine the more important of them. Inasmuch as not all the proposed laws have been alike fundamentally, *i.e.* some provide compulsory insurance for the awards arising out of negligence while others contemplate an overthrow of the doctrine of personal fault and place a presumption of responsibility on the motorist, it is necessary to separate the two groups of arguments and we will treat them in the same order in which they have been mentioned.

Arguments Against Compulsory Automobile Liability Insurance.—(1) It is claimed that instead of decreasing the accidents there will be a tremendous increase. The theory of this is that the compulsory assumption of the financial responsibility of accidents certainly will not make drivers more

careful, but quite to the contrary many of those who were formerly careful on account of the fear of individual financial responsibility will now become careless because they are insured.

Many persons have proceeded on the theory that since insurance companies usually select their risks they will eliminate the reckless and incompetent, but a law compelling the owner to be insured does not reach all of the operators of cars and hence the supervisory influence of the insurance companies over the persons whom they insure will not reach many of the reckless and incompetent drivers.

(2) Only forty per cent of those who sustain personal damage are legally entitled to collect. Of these only one-fourth fail to collect because of financial irresponsibility. This means that not more than ten per cent of the total cases are without the protection which compulsory liability insurance would give them.

(3) There will be a considerable increase in the cost of automobile liability insurance. The cost of this insurance already averages \$30 per car and since compulsory insurance will not reduce accidents because of the reasons given in a preceding argument, the cost will move upwards. Besides, the knowledge that insurance is carried will bring in the claims of guests and members of the family of the insured who are injured while riding in his car, a large increase in dishonest claims aimed to defraud the insurance companies and many other suits which under the present circumstances would not be commenced. Then, too, juries are notoriously generous with the funds of large corporations and if every automobile is compulsorily insured they will know the eventual payment will not come out of the pocket of the defendant motorist and the consequence will be a tendency to increase the size

of the award. All of these factors will be reflected in the rates which undoubtedly must be increased to cover the new hazards. Moreover the burden of additional litigation will further clog our already congested courts and increase the costs of the administration of justice.

(4) It is claimed that the heaviest burden of the increased cost will fall upon the eighty per cent of un-insured owners, who are for the most part careful and responsible drivers and for reasons best known to themselves have not seen fit to carry insurance. It is estimated about fifty per cent of the owners in city territory are already insured and most of the cars in rural districts are owned by farmers and business men who are responsible at least to the extent of the average judgment.

(5) A large number of cases cannot be reached because a state cannot impose insurance on a visiting car which is not required to obtain a license, nor does a state have extra-territorial jurisdiction over its own licensed cars when they travel out of the state. Injuries occurring on private property, or caused by criminals or those who escape from the scene without being identified will not be benefited by such a law.

(6) It would lead to the socialization of insurance and more government in business. If the state is going to compel its citizens to insure there will be constant agitation for the state to furnish the protection at cost. Then the state will have to compel the insurance companies to accept risks which their better underwriting judgment tells them to reject and at rates which are dictated by the state. Since this would cause the private companies to withdraw from the states which imposed such obligations, it involves a further extension of the doctrine of paternalism in the form of state in-

surance. Furthermore, if it is logical to compel motorists to insure their liability, all others against whom awards might be made should be compelled to do likewise.

(7) Legal compulsion has never been and never will be popular. Whenever a compulsory law is unpopular it breeds contempt and leads to evasion. Compulsory automobile liability insurance is unpopular with many persons and therefore the social consequences are likely to be highly undesirable. In addition there is some doubt as to the legality of such compulsion.

The foregoing is merely a presentation of the principal arguments against compulsory automobile insurance, but there is a lack of agreement concerning their validity and hence in all fairness we should consider the other side. Let us turn then to an analysis of these arguments following the same order in which they have been stated.

An Analysis of the Arguments Against Compulsory Automobile Liability Insurance.—(1) It is generally conceded that the transfer of individual responsibility is not likely to make automobile drivers more careful. It is expected that most laws requiring automobile liability insurance will be similar to the Massachusetts law in compelling the automobile owner to obtain insurance as a prerequisite to the granting of a license. Naturally the insurance companies will refuse to provide coverage to those persons whose records show them to be notoriously reckless drivers. At least this will have the effect of preventing a number of undesirable persons from securing licenses.

(2) The statement that not more than ten per cent of such losses go unsatisfied because of financial responsibility is based on a series of estimates and may be disputed. In any event this fact seems certain, namely, that the

number of accidents which go without indemnification does not necessarily bear any relation to the amount of the economic loss which has been sustained. This is due to the willingness to settle minor claims rather than dispute them, although a serious claim would be vigorously fought. And furthermore, this applies not only to the uninsured risks but also to the insurance companies who have placed what is commonly known as a nuisance value on small claims. They say it costs less to pay these claims without dispute than to allow them to be argued before a jury.

(3) If the accidents are not reduced the cost to certain groups of policyholders will no doubt be increased, not only because of the greater possibilities of fraudulent claims but also because juries will be more liberal. However, it does not follow that the average cost per car will rise; in fact it will no doubt go lower. It is estimated that about twenty per cent of all the automobile owners in the United States are insured. In cities of 150,000 to 500,000 population from thirty-three per cent to forty-seven and one half per cent are insured, and in cities over 500,000 it is estimated forty-seven and one half per cent and upwards are insured. Therefore the majority of the uninsured are located in the less hazardous districts and their rates should be much lower.

The statement that accidents will not be reduced is also debatable. Perhaps some persons will become more reckless if they are no longer financially responsible, but the fear of not being able to get a license unless insurance has been obtained and the desire to reduce the cost of insurance will have some effect. It is a well known fact that organized efforts toward the reduction of insurable losses follows the issuance of insurance and does not precede. Consider for a moment the efforts and success of the fire insurance companies

one accident. Even the most cautious and clever drivers have serious accidents and any motorist who covers any considerable mileage knows perfectly well that he does not have his car under complete control at all times. It is at just such a time when accidents happen.

Although nearly one half of the city-owned cars are insured, the other half presumably belong very largely to persons without financial responsibility. It is said that most of those in rural districts can meet the average judgment. That is very likely true because the average judgment is about \$300. However the average is misleading as may be shown from the claims settled by a number of insurance companies in 1923-24. The total payments of 142,841 claims amounted to \$42,039,011. Of these 124,606 were settled for \$500 or less or a total of \$14,227,678. The balance of 18,235 claims were settled for over \$500 each or a total of \$27,811,333.

(5) The argument that a state lacks extra-territorial jurisdiction is really begging the question, because it is a well known fact that ordinarily cars cover most of their mileage in the state where they are licensed. However, the real answer to this argument is for all states to have compulsory insurance and then the question of extra-territorial jurisdiction will not arise.

(6) Undoubtedly a law compelling insurance is meaningless unless the state assures the citizens of its availability. However, it does not follow that the institution of insurance will be taken over by the state nor compulsory insurance extended to other forms of liability.

Experiments in state insurance other than where insurance has been made compulsory have not been very successful in the United States and few persons desire an extension of the

toward the reduction of fire waste in recent years, conservation of life by the life insurance companies and the reduction of industrial accidents by the casualty companies. Prevention and conservation are among the greatest services which insurance companies are rendering society today, but it should be remembered that they did not begin these conservation campaigns before they had assumed risks. Therefore it is quite reasonable to expect the insurance companies to live up to their reputation in dealing with automobile accidents. Moreover, at the present time nearly one half of an automobile liability insurance premium is used for expenses other than the amounts paid to claimants. If everyone must have the insurance the increased volume of business should enable some savings in expenses, especially those having to do with acquisition.

(4) Very few of the eighty per cent of uninsured owners are both innocent and responsible. In the first place the "innocence" of a motorist has usually been considered synonymous with a spotless accident record. Merely because ninety-five per cent of the motorists have no accidents in a given year is no reason for concluding they will not have any in the years to come, any more than it is logical to say a given industrial risk does not need compensation insurance because it has only one serious accident in twenty years, or that fire insurance is unnecessary because less than one per cent of the insured risks will have a fire during the next year.

The conclusions as to carefulness and innocence are no doubt based on lack of sufficient exposure. To say that a small percentage of habitually reckless drivers cause most of the accidents is unwarranted in the absence of statistics showing the mileage driven by those persons who have had more than

paternalistic principle. Also, we are not justified in concluding that liability of every description should be compulsorily insured. Such compulsion is necessary only when the failure to insure creates a problem of national public interest and consequence. Inasmuch as the automobile is killing at least sixty per cent more persons each year than die of industrial accidents, it already has reached that stage. Nor does it follow that the insurance will be written exclusively by the state and in all probability best results would be obtained by competitive state insurance. If the insurance men, who are at present opposing compulsory automobile insurance because of the fear of state insurance, would promote legislation which provides for competitive state insurance, they would be really promoting the cause of insurance.

(7) Of course none of us relish legal compulsion but it must be remembered the purpose of compulsory insurance is twofold: to furnish protection to the injured members of society and to place the financial burden where it belongs. Unless we are anarchists and do not believe in government we must admit that one of the functions of government is to protect its citizens. The performance of this duty has always brought objections from the groups who are most affected by regulation and yet it seems impossible to maintain law and order in any other way.

Keeping in mind the purpose of compulsory automobile liability insurance, a review of the foregoing arguments pro and con leads one to the conclusion that the case in its favor is not very convincing. There is indeed a serious doubt whether it anywhere nearly approaches a solution of our problems of accident reduction and indemnification, especially since sixty per cent

of the injury cases will not be benefited by compulsory liability insurance.

AN ALTERNATE PLAN

On account of the disadvantages of compulsory automobile liability insurance and the inadequacy of the system of personal injury suits, it has been suggested that the whole matter be placed on the same basis as workmen's compensation, *i.e.* consider these accidents as a natural and inevitable consequence of the operation of automobiles, make the motorist responsible to all parties to whom he causes personal damage regardless of the doctrine of personal fault, pay them according to a schedule of benefits adjusted to their wages, and consider the cost of the insurance for such payments the same as any other operating expense. This would protect the great number who are now unable to collect damages and remove the burden of proof from the injured party, who is now at a great disadvantage because there are frequently no witnesses except the occupants of the automobile.

Objections to this Plan.—It is claimed this remedy has all the shortcomings of compulsory liability insurance except that the number of eligible beneficiaries will be increased, and in addition has some objections of its own which are even more important. The latter are as follows:

(1) Such legislation would involve the abolition of the common law of negligence and the doctrine of personal fault. This will mean that responsible and innocent drivers will be forced to pay damages whether they are to blame or not. According to many lawyers this is unconstitutional because it involves a taking of property without due process of law.

(2) It will lead to an unwarranted extension of the doctrine of paternalism such as compulsory accident and

health insurance, old age pensions, unemployment insurance and the like.

(3) It is impossible to establish an equitable scale of benefits for the public, especially for women and children who are not receiving wages. At the same time it will prevent persons who would otherwise be entitled to large damages from obtaining more than a limited amount.

(4) The flood gates will be opened for fraudulent claims and malingering on a scale greatly in excess of those which might be anticipated even under compulsory liability insurance.

(5) It will be difficult if not impossible to apply the system to other than pedestrians.

Analysis of the Objections to this Plan.—Insofar as the arguments against this plan are similar to those for compulsory liability insurance, we do not need to duplicate our analysis. However, the answers to the additional objections deserve consideration.

(1) With respect to the waiving of the legal principle of negligence we already have our precedent in Workmen's Compensation Insurance. It is claimed by the opponents of this type of law that the latter rests on an entirely different basis, namely, the contractual relation between master and servant and therefore is not comparable to the liability of a motorist to the public. Apparently it has been forgotten that less than a hundred years ago the liability of a master to his servant was the same as to strangers. It was only over a long and tedious period that the common law was gradually changed in this respect. It is scarcely believable that anyone would wish to follow the same painful and tortuous route with automobile liability, slowly modifying the negligence defenses until we eventually are forced to adopt the compensation principle.

In many respects the damage done

by the automobile is comparable to that of industry. If we accept the figures which tend to show that not more than forty per cent of those who are killed and injured are legally entitled to damages, we do not have to conclude that the remaining sixty per cent are entirely to blame. Instead they are usually victims of a combination of circumstances frequently impersonal in character and since the burden of proof is on them to show they are without fault and the motorist was entirely to blame, they are unable to collect. This is especially difficult in the case of pedestrians struck by automobiles and constituting more than one half of those involved in personal injury accidents. The injured person seldom knows what hit him, let alone the attendant circumstances. As if this were not sufficient handicap it frequently happens that the only witnesses were occupants of the motorist's car.

Even when the injured party has been guilty of contributory negligence we must remember that present traffic conditions have been caused by the automobile. The automobile has been developed at a remarkable rate within a very few years and has had to use the facilities it found available. No one is to blame for a lack of ability to wholly adapt himself to these changed circumstances. Habit and custom can only be changed over a long period of years and we undoubtedly are becoming more used to the vagaries of automobiles because the number of fatalities per registered car is now only forty per cent of what it was ten years ago. In the meantime it seems no more than fair and just to compel the automobile to bear the financial consequences incidental to its ownership and operation. It is claimed that the additional burden would be equivalent to the present taxes borne by the automobile and amounting to about \$667,-

000,000 in 1925. At the present time the death and injury losses of the family breadwinners are borne by the suffering families or by general taxation to support our public institutions or by private contributions to charity. Although the nation's automobile bill is now over eleven billions annually, it should not be impossible for the business to absorb an additional three quarters of a billion.

The time-honored legal objection to every new law—it is unconstitutional—can be surmounted. If laws aimed to protect the majority of the citizens of a nation are unconstitutional, then the Constitution needs changing. The use of the word "majority" is used advisedly because it is literally true that practically all citizens are exposed to the dangers of automobiles.

(2) In the absence of any great need there will be very little agitation for the compulsory adoption of these other forms of insurance. It is the inability of certain social groups to take care of themselves which forces the government to provide for them; a policy sometimes called paternalism.

(3) No set scale of benefits need be prescribed for those who are income producers. The law can provide for a fixed percentage of wages to be determined in some prescribed manner such as sixty per cent of the average weekly wage for the year preceding the accident. In the case of persons who are not deprived of any income an arbitrary scale would have to be used.

Most persons are willing to accept the assurance of the replacement of lost earnings in lieu of the possibility of a large award at common law. In fact the possibility of collecting more than is deserved is one of the defects of the personal fault system.

(4) No doubt a great many fraudulent claims will be presented just as in many other kinds of insurance. However, we can trust the insurance companies to reduce this to a minimum.

(5) Whenever more than one vehicle is involved in a personal injury accident the loss could be adjusted according to the principle of cross-liabilities, i.e. the proportion of fault should be determined with respect to each vehicle and the damage assessed accordingly.

CONCLUSION

The only arguments presented in this article are those which the interested parties have stressed the most. However, they should be sufficient to show that compulsory automobile insurance is a moot question even though much of the discussion is based on deductive reasoning. If simple inductive methods were available in the solution of socio-economic problems, as they are in those of chemistry and physics, we could soon say decisively what should be done. As it is, a positive answer one way or the other is nothing more than the judgment of individuals as to the importance or unimportance of the several arguments.

Current Rate-Making Procedure in Workmen's Compensation Insurance

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THE principle of workmen's compensation is based on the philosophy that industrial injuries are primarily social, not individual, in origin and that therefore losses resulting therefrom should be shouldered by society and not by the injured worker. For the sake of administrative simplicity, workmen's compensation statutes charge the employer directly with the responsibility of indemnity; the employer in turn is presumed to assess the consumers of his product for this cost in order to reimburse himself.¹ But a law which merely charges the employer with responsibility is only half a compensation law; it is perhaps even more important to see that he discharges it! Various methods are in use in the different states to guarantee the payment of compensation awards, but by far the best and most usual is the requirement that employers carry compensation insurance.

The crux of workmen's compensation is thus compulsory insurance. So the crux of insurance is the insurance premium or rate. There are at least two considerations which cause the making of compensation insurance manual² rates to be of interest not only to actuary and technician, but to socially well-informed people generally. They are briefly: (1) the

social nature of compensation insurance, its origin resting on the fiat of a state legislature, its scope embracing social groups characterized by low incomes; (2) the importance of maintaining compensation insurance rates which are neither redundant, that is, unfair to the consuming public which supports the system, nor inadequate, that is, unfair to the companies, who in this field are classified practically as public utilities.

The matter of maintaining compensation rate levels fair to both parties at interest is by no means a simple one. At times within the last ten years the companies have received rates more than sufficient to pay losses and other costs. In more recent years, the business has on the whole not been profitable for the companies. In 1924 the stock and mutual companies of the United States reported an underwriting loss of 8.1 per cent; in 1925, an underwriting loss of 6.5 per cent.³ The ten-year average of the stock companies, 1916-25, shows an underwriting loss of 1.2 per cent, not large, but hardly to be viewed with equanimity; the mutual companies make a better showing for the same period, 18.5 per cent underwriting gain, but the mutuals wrote only about one-fifth of the business.⁴ Certainly if the casualty companies relied wholly on their compensation business they would be in sorry plight.

¹ Compensation costs are in the nature of a tax and for this reason in particular cases the process of shifting the incidence of the cost may be partially or even entirely blocked.

² Because of limitations of space, "merit" rating cannot be discussed in this article.

³ *Casualty Insurance Report*, 1926, A. M. Best, Inc.

⁴ *Ibid.*

Why should the companies lose on their compensation insurance business? The answer lies in a statement of the fundamental difficulties encountered in compensation insurance rate-making. They are of two classes: (1) those which are *socio-economic*, that is, created by social and business causes; (2) those which are *actuarial*, created by the nature of the rate-making data themselves.

DIFFICULTIES ENCOUNTERED

1. **Socio-economic Difficulties.**—Although the ideal of the rate-maker is adequate without redundancy, two important influences operate to make rates too low rather than too high. The more important of the two is the control exercised by the insurance commissioners of the various states, which extends in some cases as far as the actual calculation of the rate to be charged, as in Texas. Usually the commissioner's authority is confined to the power of giving or withholding his approval of rates, but this gives him for practical purposes almost as much power as if he were permitted to make the rate, and, even assuming the best intentions on the part of the commissioner, the system in the long run works toward inadequacy rather than in the opposite direction. Also the large insurance companies have in the past few years apparently been glad to write the "line" at little or no profit, recognizing in it an excellent "business getter" or "opening wedge" into the general insurance accounts of prospective clients. Rate-making difficulties which arise from social and business influences are likely to continue for some time.

2. **Actuarial Difficulties.**—Up to this time we have assumed it a simple matter to calculate the correct premium, and that premiums which would otherwise be correct are lowered be-

cause of socio-economic influences. Nothing is farther from the truth. Basically the rate calculation is an easy one, as compensation rates are expressed as so many cents per \$100 of payroll. For example, Classification 6280 (Blasting)⁵ reports losses of \$5000 and payroll of \$1,000,000; the first amount divided by the second results in a pure premium, or loss rate, of \$.50.

But some very real actuarial difficulties have to be surmounted by the rate-maker before he arrives at this simple index of loss cost! They are of two kinds: (a) *those due to the necessity of using loss and payroll data defective in accuracy because of the passing of time*; (b) *those due to the necessity of using loss and payroll data defective in accuracy because insufficient in number*.

(a) **Rate-Making Difficulties Due to Use of Old Data.**—Every rate-maker is faced with this first difficulty. It is inherent in the rate-making process. He must go back in point of time in order to secure data sufficiently ample so that he may achieve the benefit of the law of average, thus avoiding the second type of actuarial difficulty referred to above. But having decided to use old data, he must make a number of important corrections in the experience as reported if it is to be used for making rates to be applied under current cost conditions. Between the first years represented by his oldest data and today, accident frequency and severity rates may have changed, wage levels may have gone up or down, the legislature may have met and liberalized the provisions of the law,

⁵The classification is the compensation insurance risk-unit; data are collected and rates made by classifications. The classification may represent an entire industry, as cast iron pipe manufacturing; a trade or occupation, as carpentry; or a process, as blast furnace operation.

even an unrevised compensation law may be interpreted more and more liberally, that is, in favor of the insured. But data even thus corrected are not strictly up-to-date; and a rate based on such data might very easily be out-of-date before it is printed in the manual. This is because insurance rates are applied and charged at the beginning of the policy period, in compensation insurance one year, and a rate based on data corrected only to the date of the rate calculation does not take into account the changes affecting cost which may operate during the period of the policy.

In the developmental stages of rate-making, the actuary naturally considered it essential that he devise a correction factor for every influence affecting the usability of loss and payroll data. Not only did he introduce factors calculated to bring the experience up to the level of the time of making the rate; he even tried to project into the unknown future his concept as to what the rate should be for the coming year. Although his motives were praiseworthy, the result was a rate-making machine highly complicated, cumbersome, and in spite of his best efforts, behind the times. No one today realizes better than the rate-maker himself the futility of this perpetual clutching at a rainbow. As a result correction factors today (1) are extremely simple in plan, and (2) are confined exclusively to bring data approximately up to the date of the rate calculation and do not attempt to search out the future.

(b) **Rate-Making Difficulties Due to Use of Insufficient Data.**—But the end of the rate-maker's trials is not yet! He is required to quote in his manual of rates a rate for every single industry, trade and process in the state. There may be only one leather tannery in the state; he must have a

rate for it nevertheless. To make a rate on the basis of the experience of a single risk is unthinkable, so the rate-maker combines his tannery data with those of tanneries of other states. This process of combination brings with it new difficulties: Losses cannot be added without correction because they are paid on the basis of individual state laws; even assuming exactly duplicate laws in two states (which is contrary to fact), loss data are not comparable because of very real differences between states in the attitude of boards and courts. Payrolls also should not be added without modification (although for the sake of expediency they may be) because wage levels are not the same in different states.

Rate-Making Under Ideal Conditions.—In the strict sense there are no ideal rate-making conditions; the rate-maker always is forced to use old data. But he approaches *practically ideal* conditions when he is able to make his rate on his own state experience. At one swoop he eliminates the second of the two actuarial difficulties, that of combining dissimilar data. This is an advantage, for no matter how skilfully he combines dissimilar data, the process of combination involves assumptions, and assumptions (which are based on putative relationships) are never as satisfactory as relationships which are proven. Of course, except in the largest industrial states, even a *practically ideal* system is not possible; of the forty-three states only nine make no use whatever of interstate experience. The remaining states use interstate rates either wholly or in part.

Rate-Making on Interstate Experience.—The National Council on Compensation Insurance, with headquarters in New York City, is by far the most important rate-making agency in its field in the United States. Although

there are a number of independent bureaus engaged in the calculation of compensation insurance rates, the National Council makes rates in thirty-four states (every one of the states using interstate experience for rate-making), and numbers among its members most of the leading casualty companies. Close liaison is maintained with the National Convention of Insurance Commissioners, which has a permanent representative at the main office of the Council. Membership is non-partisan.

In preparing for rate-making purposes loss and payroll data reported from the various states, a number of important variables have to be considered and measured. The variables whose influence it is desirable to exclude are those which have an arbitrary influence on the statistics representing the number and severity of accidents as embodied in loss experience, such as the number of dollars per week indemnity promised for a death or a total disability in the compensation law, the number of weeks for which this indemnity will be paid, the duration of the waiting period, if any, etc. For example, it is not permissible to add the death losses of New York for a given classification with those of Virginia without correction because in New York \$5000 may represent the indemnity of one death, and in Virginia, of two deaths, a difference which may be due primarily to the less liberal provisions of the Virginia law. The purpose of combining the experience of different states is to secure a wider volume of experience, but insofar as possible the combination should represent the addition of data reduced to terms of a common denominator: comparable industrial accident frequency and severity rates.⁶

⁶ Wage levels also vary between states and the combination of uncorrected payroll data ignores

Suppose the rate-maker is engaged in ascertaining the compensation rate for *Classification 5204: Concrete work, buildings, etc.*, to be applied in Virginia in 1927. He realizes that the experience of Virginia alone is probably not great enough in volume to justify the making of a rate on the basis of its own experience. When a volume of experience is small, it is untrustworthy. A low indicated cost (basis of Virginia experience), even for a period of several years, probably is not due to the fact that the industry in Virginia is inherently less hazardous than elsewhere, but happens because there are only a few operations of this type in Virginia, and these few operations chanced to have a good year or series of years. The same doubt is likewise raised when a state indicated cost is higher than is the general level of the rest of the country. The rate-maker therefore decides to combine Virginia's experience for this classification with the experience of thirty other states.

What the rate-maker wants is a picture of the Virginia loss cost in this particular classification, but modified by the experience of the remainder of the country. If Virginia indicated cost is high, the effect of mixing Virginia's high cost experience with the lower cost experience of other states will be to modify both, raising the cost of the other states and lowering that for Virginia, but the greater influence will be exerted on that of Virginia, since it is only one of many states.

this disparity. In the present revision payrolls have not been corrected either for these differences or for changes in wage-levels over a period of time. Probably interstate differences are so tenuous as to be practically non-measurable. Differences over a period of time have not been corrected because in the early part of the experience period wages fell, in the latter, they rose. There is consequently no point in revising payrolls, as the aggregate payroll would remain practically as now.

If the Virginia indicated loss cost is comparatively low, the effect of the same operation will be to raise it somewhat. In short, since Virginia experience cannot be relied upon to produce its own rates, the rate-maker does the next best thing under the circumstances; he calculates an *average* or national pure premium rate. Like other averages, this rate is fictitious in that it is not precisely correct for any particular state, in this case Virginia, but in the long run the average rate will be more stable and thus more satisfactory than the Virginia indicated rate. An *average* rate is naturally not as accurate an index of hazard in a given classification as a rate made from the state's own experience where the state experience is sufficient, but if this experience is deficient, the average rate offers the only feasible way of rate-making.

Reduced to fundamentals, the operation of combining the experience of various states is twofold: (1) The process of combination itself, that is, adding loss and payroll data for thirty or more states; (2) the process of reverting the results produced by (1) in order to make these results applicable to a given state, as Virginia.

Combining Loss and Payroll Data for Classification 5204.—As dollars of losses are non-comparable as reported by the individual states, some common denominator must be used to make them comparable. In the 1927 Revision by the National Council on Compensation Insurance, as has been the practice since the 1920 revision, the cost of workmen's compensation under the New York law has been used for this purpose. New York is the largest industrial state in the country. It presents a great variety of industrial classifications, and for this reason costs under the New York law have been taken as the standard. In

various rate revisions during the past ten years, various methods have been used to "convert," that is, to "step up" or "step down" the actual loss experience of individual states to the New York basis. At one time, for example, the rather simple device was used of comparing the average cost of a death for all classifications in an individual state, as Virginia, with the average cost in New York; if the average cost in New York has been twenty-five per cent higher than in Virginia, obviously, in order to put Virginia actual or reported death losses on the New York basis, it is only necessary to multiply the actual Virginia death losses, \$100,000 for example, by 125 per cent or \$125,000. The conversion of the reported losses of all the states to the same basis and their addition results in a national loss figure for the classification; and the comparison of these national losses with combined state payrolls for the same classification produces the national pure premium. It will be noted that this national pure premium, however, is still in terms of the New York law.

The method of converting to the New York basis used in the current rate revision is known as that of "experience differentials," to indicate the fact that the present conversion factors are made up from actual loss and payroll experience in the various states as contrasted with the so-called "law differentials" of the early days, which were based primarily on a standard distribution of accidents, that is, on a *typical*, not an *actual* array of accidents. Experience is reported and premiums are calculated for three groups of losses: serious, non-serious, and medical. There are therefore three, not one, conversion factors, corresponding to the three loss groups. The formula for ascertaining the conversion factor

for serious losses in the 1927 revision follows:

New York, 1918-22, serious actual losses
(present law level)

New York, 1918-22, serious expected losses
(1918-22 payroll x 1923 Nat. Pure
Prem.)

Virginia, 1918-22, serious actual losses
(present law level)

Virginia, 1918-22, serious expected losses
(1918-22 payroll x 1923 Nat. Pure
Prem.)

Similar differentials are calculated for non-serious and medical losses. The loss figures used in calculating these differentials are of course those for all classifications within the respective states, since the purpose of the experience differential is to measure the differences between the state-wide serious loss costs of specified states whose data are being converted and the state-wide serious loss costs of the standard state, New York. A comparison of the *actual* New York serious losses (brought up-to-date by appropriate modifiers to bring the dollars of losses to terms of the present compensation law) with the *expected* New York serious losses for the same period, indicates the extent to which the New York law produces serious losses greater or less than the national average. Let us assume that New York actual serious losses were twenty per cent higher than New York expected; therefore, New York experience for all classifications showed a serious loss cost one-fifth higher than that for the country as a whole. If a similar operation is followed using the experience of Virginia (and for every other state), a similar measurement of Virginia serious cost compared

to the entire country is produced. If this ratio of actual to expected losses is eighty per cent, it is apparent that for the five years 1918-22 (the latest available for *all* the states in the fall of 1926), Virginia serious losses are twenty per cent less than the national average. The experience differential or multiplier applicable to Virginia serious losses in order to bring them to the New York present law level is: 120 per cent divided by eighty per cent, or a factor of 150 (per cent). One hundred and fifty per cent times the actual losses (brought up to present law level) of Virginia in Classification 5204, will produce Virginia losses on the New York present law basis. If the same process is followed for the remaining states whose experience is to be used in the combining operation, the final result will represent total United States serious losses for Classification 5204. The addition of payrolls for the same states for the same classification will produce the total United States payroll. A comparison of the two will produce the United States pure premium for Classification 5204, still, however, on the basis of the New York present law level. In the current revision, the national pure premiums on the New York present law basis for Classification 5204 are: serious, \$1.67; non-serious, \$1.31; medical, \$.77.

Reverting National Pure Premiums to Individual State Basis.—The rate-maker now has an average loss rate or national pure premium, but it cannot be used in its present form, since it is still on the basis of the present New York law, incidentally a higher cost basis than that of almost every other state. The simplest method yet used in compensation rate-making for reverting or "stepping back" national pure premiums on the New York basis to national pure premiums on an individual state basis (Virginia) was

to apply to the national pure premiums on the New York basis the reciprocal of the factor used for conversion. For example, in our illustration the conversion factor is 150 per cent; to revert to the national pure premium on the Virginia present law basis, the serious pure premium of \$1.67 would be multiplied by 66.66 per cent (the reciprocal of 150 per cent) or about \$1.11. Substantially the same method is used in the present revision, with two modifications.⁷ The national pure premiums based on the years 1918-22, as derived above, are multiplied by total payrolls for all classes, the result being *expected* losses for the entire state of Virginia for all compensation risks written (on the New York present law basis). The sum of all Virginia *actual* losses (present low basis) for the same classifications for the same period, when compared with the sum of expected losses, gives a percentage factor which measures directly the extent to which *any* national pure premium on the New York present law basis including the one we have secured for No. 5204, must be modified to make it a *national pure premium, Virginia present law basis*. The reversion factors in the 1927 Revision are: serious, .357; non-serious, .338; medical, .795. Reverted national pure premiums on the Virginia present law basis become: serious, .60; non-serious, .44; medical, .61.

Giving a State the Benefit of its Own Experience.—Up to the present point we have assumed that the experience gathered in Virginia for Classification 5204 is so scanty as to be undependable for autonomous rate-making. This is not necessarily so and certainly if

⁷ For example, the reversion factor includes also a sub-factor introduced to convert the national pure premium on the *Virginia present law basis* (1918-22 experience) to the same basis (1920-24 experience). The necessity for this will be made apparent in the following section dealing with state credibility.

the quantity of classification experience, as judged by some standard, warrants, state experience should play an important part in determining the rate. The setting up of such a standard or so-called state credibility criterion is a recent departure in the National Council rate structure. Suppose the rate-maker wishes to test the credibility of his serious loss experience from Virginia. The average cost of a serious loss in Virginia for all classifications is, let us say, \$5000 (basis of New York present law). He assumes that if any classification develops twenty-five serious losses, a total serious loss cost of \$125,000, the classification is entitled to 100 per cent local credibility and the national pure premium is not used at all in making the rate; if it develops a smaller cost, the percentage of local credibility will be decreased proportionately. The present criteria are arranged in five groups, ranging from zero to 100 per cent local credibility, at intervals of twenty-five per cent.⁸

Against its criterion are checked Virginia *expected* losses for Classification 5204 for the period, 1920-24, derived by multiplying Virginia payrolls by the national pure premium, 1918-22. *Actual* Virginia losses are not taken, because they are bound to vary considerably from time to time. In the present revision serious losses for Classification 5204 fall within the third credibility class: fifty per cent local credibility; non-serious within the second: seventy-five per cent; medical within the first: 100 per cent.

For Classification 5204 the indicated pure premium on Virginia experience alone for the period 1920-24⁹ (losses

⁸ There is a separate criterion for each loss group.

⁹ Experience for this classification from *all* states is available only to 1922; from Virginia, to 1924.

amended to present Virginia law level) for serious losses is \$1.09; the national pure premium, Virginia present law basis, is as we have seen only \$.60. Which rate should be taken—the state's own rate or the national average? If the indicated pure premium is based on ample data, measured by the credibility criterion, the national pure premium ought to be largely or entirely disregarded. Thus in the present revision the state indicated serious pure premium receives a weight of fifty per cent, making the combined or so-called *formula* pure premium \$.85. A similar process is followed with non-serious and medical pure premiums, using the appropriate weights.

"Pitching" Rate Levels.—One matter of importance demands consideration at this point. The calculation of national pure premiums at the Virginia present law level as the term implies, has nothing to do with determining absolute premium amounts. The purpose of combining experience from different states is not to ascertain the exact cost level to be charged for each classification, but to secure a truer index of relativity *between classifications*. The effect of combination is to change the *relative* costs of classifications within the state; but the necessity of ascertaining *rate levels* still remains. Many factors (in fact, all other than legal, which have been measured), such as changes in accident rates, wage levels, etc., may have caused changes in cost since the time of our experience period. In order to bring the national pure premiums which are on the *Virginia present law level* to the *Virginia present cost level* a final correction factor is applied: National pure premiums, Virginia present law level, are multiplied by Virginia pay-rolls for the years 1922-3-4 in every classification, these years being the

latest for which there is Virginia experience, and assumed to be typical of the rate level obtaining in 1927. Perhaps this assumption is not precisely correct, but it is practically so. The sum total of classification *expected* losses represents total pure premium income which will be received by all the companies, if they charged national pure premiums. A comparison of this total with the Virginia *actual* losses (present Virginia law level) for the same three years, shows the rate-maker whether the rate level, which would be established by national pure premiums, is too low or too high. If the *actual* losses have been higher than *expected*, this entire rate level has to be increased by a percentage expressing the amount of the discrepancy. The final correction factor will of course be the same for all classifications within Virginia and is applied impartially to the national pure premium of each. In the current revision this factor for Virginia serious pure premiums is 1.028, indicating that expected losses were approximately three per cent less than actual. When formula pure premiums rather than national pure premiums are used, the factor is of course applied to them instead. Thus the *serious* formula pure premium of .85 times 1.028 becomes .87; the non-serious, .38 becomes .39; the medical, .81 is unchanged. There is a separate final correction factor for each loss group.

Loading.—The tale of rate-making is nearly done. The formula (or national) pure premium *on the present Virginia rate level* is usually accepted by the actuarial committee of the Council, but not necessarily so if the pure premium varies a great deal from that underlying the present manual rate. Having decided upon a total pure premium of \$2.07, the expense loading factor, and a special factor

to cover catastrophe losses are added, making the manual rate \$3.55, which appears in the 1927 Manual for Virginia for Classification 5204.¹⁰

CONCLUSION

Two outstanding tendencies are apparent in this rapid summary of current rate-making procedure which should not be obscured by descriptive detail. *First:* there has been a most noticeable swing away from the extreme refinements of even three and four years ago, following a general realization that such refinements often defeat their own ends. There is in use today no factor to correct payroll figures, either between states or over a period of time in the same state. This omission is due, not because there are no differences, but because in the case of the first the differences are difficult to measure satisfactorily; in the second, the differences tend to cancel each other. Whatever factors are used to bring experience up to the present rate level are simple; nor is there any attempt to achieve absolute precision in this process. For example, in the present revision, it is assumed that the rate level established by the years 1922-24 (the latest for which there are data) is the same as that for 1927, the year in which the rates will be applied. No attempt of any kind is made to peer into the future, a function once attempted by the "projection factors" of past revisions. The following, by Mr. William Leslie, Manager of the National Council, is an excellent statement of the current policy of the Council:¹¹

¹⁰ The formula for adding expense loading (which in Virginia is 41.5 per cent of gross premium) and the catastrophe loading (which is a constant of one cent) is:

$$\text{Gross Rate} = \frac{\text{Pure Prem.}}{1 - .415} + .01$$

¹¹ From a copy of an unpublished address delivered in 1925.

We have come to believe that the most satisfactory method of rate-making is one which utilizes the experience of the past without introducing conjectural factors based upon predictions as to the future. In taking this course we tacitly assume that there is no substantial permanent trend in cost upward or downward and that if we adjust compensation rates annually upon the basis of a fixed number of years of past experience, these rates will on the average over a considerable period of years be neither excessive nor inadequate. Admittedly they will not fit the particular years in which they are applied. It is expected that there will be lean years and fat years, but that by husbanding the excesses of the fat years to meet the deficiencies of the lean years, the average will be generally satisfactory.

Second: there has been a noticeable swing toward giving the experience of the individual state more weight in ascertaining rates for that state. In the 1927 revision of the National Council, literally hundreds of manual rates have been made on purely single state experience. The rate-maker has always had to keep one eye on the indicated cost of the individual state, so as not to show too marked a discrepancy between the indicated and the national pure premium; now for the first time state credibility is an integral part of the rate structure.

Workmen's compensation insurance is still very young, measured by its fellows, but the trials of the pioneering days, characterized by the inevitable use of the method of trial and error, are past. It is not a criticism of any rate-maker or of any rate-making organization to say that out of the complexities of the past derive the simplicities of the present structure. Whatever the influence of social and business factors in the future, the major actuarial difficulties have been solved. It is significant that, for the

first time since the beginnings of compensation rate-making, the national rate-making body has selected the following as the official title of its rate-

making plan: "The Permanent Rate-Making Method Adopted by the National Council on Compensation Insurance."

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Multiple Line Coverage

By BENJAMIN RUSH

President, Insurance Company of North America

ON March 4, 1922, the Congress of the United States approved an Act to Regulate Marine Insurance in the District of Columbia, which Act has since come to be designated by the title of the Model Marine Insurance Bill.

Congress, of course, has no power to legislate regarding insurance in the various states of the Union—it can only legislate for the District of Columbia. The above Act, therefore, was intended for a model for the various state legislatures to follow. The Bill was passed by Congress, after a very exhaustive series of hearings at which insurance men, merchants, shipowners, and others, were given every opportunity to state their views. It was passed on the initiative of the House Committee on Merchant Marine and Fisheries as being one of a series of steps necessary to improve the shipping trade and the commerce of the United States by putting them more on a parity with other competing commercial nations.

The first section of the Act is concerned with definitions; the second section of the Act provides as follows:

Section 3. That a marine, fire-marine, or fire insurance company may be formed, admitted or licensed to write any or all insurance and reinsurance comprised in any one or more of the following numbered subdivisions:

First. On marine risks as described in Section 1 of this Act under the definition of "marine insurance."

Second. On property and rents and use and occupancy, against loss or damage by fire, lightning, tempest, earthquake, hail, frost, snow, explosion (other than explosion of steam boilers or flywheels),

breakage or leakage of sprinklers or other apparatus erected for extinguishing fires, and on such apparatus against accidental injury; and against liability of the insured for such loss or damage; and on automobiles against loss or damage from collision or theft, and against liability of the owner or user for injury to person or property caused by his vehicle.

Third. Against bodily injury or death by accident, and against disablement resulting from sickness, and every insurance appertaining thereto, including quarantine and identification.

Fourth. Against liability of the insured for the death or disability of another.

Fifth. Against loss of or damage to property resulting from causes other than fire, marine and inland navigation hazards, and against liability of the insured for such loss or damage, and on motor vehicles against fire, marine and inland navigation hazards, and against personal injury and death, and liability of the assured therefor, from explosions of steam boilers and engines, pipes and machinery connected therewith, and breakage of flywheels or machinery, and to make and certify inspections thereof, and against loss of use and occupancy from any cause; against loss by burglary, theft and forgery.

Sixth. Against loss or damage from failure of debtors to pay their obligations to the insured.

Seventh. Against loss from encumbrances on or defects in titles.

Eighth. Against loss or damage by theft, injury, sickness or death of animals, and to furnish veterinary services.

Ninth. Against any loss or liability arising from any other casualty or hazard not contrary to public policy, other than that appertaining to or connected with (1) life insurance (including the granting of endowments and annuities) and (2) fidelity and surety bonding.

In other words, the Congress of the United States after due deliberation, and the taking of exhaustive evidence, decided that it was to the advantage of the commerce of the United States, and of its citizens, that multiple line coverage should be permitted to Fire, Marine and Casualty companies in the United States in contradistinction to the almost universal rule prevailing in the individual states that Fire and Marine companies may not write Casualty Insurance nor may Casualty companies write Fire and Marine Insurance.

ADVANTAGES OF COMPLETE COVERAGE

The reason why they came to this decision was twofold:

One was that the writing of all kinds of insurance, except Life, under one charter, would result in reduction in overhead costs, and that consequently, in the long run, companies enjoying such broad privileges would operate at a lower cost rate than would be the case if both the Casualty companies, and the Fire and Marine companies were each restricted to their own particular field.

The second was that it is more convenient to the assured, or his representative the broker, to deal with a company that can supply all his insurance needs than with one which can only supply a part of them.

(A)—*Lower Cost to the Companies and to the Assured*

Let us take the first of these arguments, namely, the lower cost, and examine it carefully, as was done by the Committee on Merchant Marine and Fisheries, to see if the argument of reduction in cost is a true one. For the purpose of making the matter clear let us take an exaggerated case as by that means the truth will appear more clearly, and let us suppose that instead

of there being two classes of companies—one writing Fire and Marine and their allied hazards, and the other writing the Casualty classes (Accident, Casualty, Indemnity and Fidelity, and their allied classes as is the case at present)—that the laws of the various states provided that companies should only be granted a charter for one class of insurance, and let us see whither this will lead us. In such a case a number of companies would have to be chartered to write Marine Insurance; an additional number of companies would have to be chartered to write Fire Insurance; an additional number of companies would have to be chartered to write Windstorm insurance; others for Automobile insurance; others for earthquake hazards, etc. The Casualty companies with their numerous classes of coverage would certainly require to be split up into more than fourteen different classes of hazards, and consequently more than fourteen separate kinds of insurance companies would have to be chartered in order to give the full protection to the policyholder which he now enjoys.

Taking the Fire, the Marine and Casualty together there would have to be at least thirty different classes of companies chartered to give the coverage which is now afforded by the Casualty and the Fire and Marine groups. It does not require a very arithmetical mind to realize that the wages to capital, and the wages to officers, and the general overhead of thirty different classes of companies would be considerably greater than the overhead of two classes of companies.

If this holds true for two classes of companies it also holds true for one class of company. Were Fire, Marine and Casualty companies each allowed to write all the classes of risk allowed by the charters of both, it could not fail to reduce the expenses of the business.

The proof of this is shown in the growth of the large American department stores. There is no city of any size in the United States which does not have its big department store where one can buy anything from a package of tooth picks to an automobile. The reason why this is so is because on a large volume of sales the owner can afford to take a smaller percentage of profit than he can on a small volume of sales, and at the same time can afford to pay large salaries to secure the highest class of ability, with all that this implies in the way of efficiency in management, and reduction in cost of product.

(B)—*Convenience to the Public*

Let us come now to the next argument, and that is the convenience of the public, and let us ask ourselves this question: Would we, if we were an assured or a broker, prefer to have to deal with possibly thirty classes of insurance companies, and acquire thirty separate policies of insurance to protect us against all the hazards to which we are exposed, or would we prefer to deal with only two classes of companies, which two classes of companies could give us a coverage as equally sound and perfect and cheap as would be that of the thirty? If the answer to this proposition is "yes" then you are inevitably bound to answer "yes" to the second question—would you not prefer to deal with one class of companies instead of two?

Again, let us consider the average large department store. Why do people go there instead of going to fifteen or twenty different and separate stores to do their shopping, and the answer again is either (a) they get things cheaper in actual price, or (b) cheaper in convenience to themselves in the saving of their own time. Time is money to the shopper whether he is

buying a paper of pins or a policy of insurance. The proof of it is the vast number of people who prefer to deal with a big department store rather than with a small special store, and the fact that the big store drives the small one out of business.

The same holds true of insurance. The assured, the agent and the broker, all prefer to deal with the company which can give them complete coverage, rather than deal with a number of companies able only to give partial coverage.

It is argued by some that the separation of insurance into three groups, to wit, Life, Fire and Marine, and Casualty and Surety is for the benefit of the insuring public, for the reason that the policyholder insuring with each class of company knows that the capital and all the assets of that company will be used for the payment of losses occasioned substantially by the same hazards against which he sought protection—hazards which have been carefully considered by the underwriter in determining the rate which the assured must pay.

He understands that the premiums which he and the other policyholders of the company contribute are to be used for that purpose, and not subjected to the liability or the payment of losses caused by an entirely different risk.

It seems to me that this reason is based on a misconception, unless it be maintained that the whole is less than the sum of all its parts.

Every citizen of the United States, or of a civilized country, needs and should have life insurance. Whether he knows it or not, he has paid for Fire and Marine and Casualty Insurance in some form or other; therefore, if the capital and all the assets of the marine insurance are pledged for the satisfaction of the claims of its marine policyholders, and if the capital and all the

assets of the fire insurance are equally pledged for the satisfaction of its fire policyholders, and the capital and all the assets of the casualty companies are pledged in like manner, wherein is the policyholder any worse off if but one policy is issued for all these hazards instead of three policies, provided the capital and assets were adequate in each class to begin with?

Mathematically, it is undoubtedly true that the whole is but the sum of all its parts. Practically, however, it may be more than that, for is it not

also true that bodies attract in proportion to their mass?

If we argue the contrary, we should logically dissolve these United States, and let each individual state apply its own assets to the benefit of its own citizens, nay, we should also dissolve the political organization of the states, and let each city and hamlet apply its own assets to its own necessities. Fortunately, we are wiser than this politically, and realize in spite of legislative economic heresies that "in union there is strength."

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Tendencies in State Supervision of Insurance

By WILLIAM BROSMITH

Vice-President and General Counsel, The Travelers' Insurance Company; Chairman, Committee on Insurance Law of the American Bar Association

WHAT is called the American system for the supervision and regulation of the affairs of insurance companies is in itself but the development of a modern tendency. Hardly seventy years have elapsed since the state; which is generally credited with the conception, considered it to be a governmental duty in the public interest to treat insurance companies as a special class of private corporations and to subject them to particular, special laws for the regulation of their corporate relations and transactions with the state as well as with the public.

STEPS TOWARD INSURANCE REGULATION

Until the Massachusetts Act of 1852, insurance companies which transacted business in the United States, like other corporations, were required in a number of the states to report annually their financial condition to some designated officer. In some states insurance companies were also required to pay a tax upon premium income for certain specified purposes in addition to the usual property taxes. In other respects, however, insurance companies were neither supervised nor regulated nor were they subjected to requirements other than those which were applicable to all classes of corporations.

The limited authority conferred by the Massachusetts Act of 1852 was materially enlarged in 1855 and again in 1856. During this time a new and independent Board of Insurance Commissioners was created and supervision

and regulation of insurance by the state really began. New York is credited with being the first state to follow the example of Massachusetts, but within a comparatively short time most of the states followed the lead of the New England commonwealth and made provision of one kind or another for the special and particular regulation and supervision of insurance.

In 1875 the Dominion of Canada enacted an Insurance Act which conferred upon the Minister of Finance of the Dominion, and under his direction and control upon the Superintendent of Insurance, powers and authority concerning insurance companies in their transactions throughout the Dominion which, although they differed from the insurance regulatory laws of our own states in certain respects, corresponded in their essential purposes to the laws which had been enacted in the same relations in the older states of the United States.

Just as the states followed the action of the Commonwealth of Massachusetts, so the Provincial Parliaments in the Dominion of Canada followed the example of the Dominion Parliament, but with a peculiar result due to the relations between the Dominion and Provincial governments and the limitations upon the legislative powers of the Dominion Parliament in the British North American Act. There exists now in Canada a dual supervision with more or less of an active conflict between the Dominion and Provincial authorities as to their respective rights and duties in the premises. This dual

supervision serves as an illustration of what we might have had in the United States if the movement for Federal supervision had resulted in the necessary constitutional amendment and appropriate Federal legislation. We would have had country-wide Federal supervision for all companies added to the present kind of state supervision of each company in the state of its domicile.

ATTEMPTS TOWARD READJUSTMENT

Between 1852 and 1906 many changes were made in the insurance regulatory laws of the states and of the Dominion and as a rule with little regard to the advantages to be gained by uniformity of requirement, but it may be said in general that it was the legislative intention to include within the general scope of these laws the different kinds or classes of insurance companies, to provide standards of solvency and capital and investment requirements, to regulate the kinds of insurance which might be issued by the companies, to prescribe a standard fire policy, to require equitable treatment of policyholders, to authorize investigations into the affairs of the insurance companies and to give due publicity to the financial statements or reports of the insurance companies and to the activities in the public interest of the supervising officials.

If the points thus summarized had been cared for with some regard to uniformity of statutory provision and these laws had been administered with a like regard for uniformity of construction, it might reasonably have been expected that the interests of the public as well as those of the insurance companies under conditions then existing could be properly conserved. Of course, insurance development and emergencies might from time to time require additional legislation and even more stringent requirements.

REMEDIAL LEGISLATION

With the year 1906 came such an emergency and with it an era of remedial legislation. This followed the investigations of life and fire insurance in the State of New York, life insurance in the State of Wisconsin and the studies and surveys of a committee appointed in 1906 by a conference of governors, attorney-generals and insurance commissioners of the various states and territories.

Now, in addition to the regulations of the pre-reform era we have limitations upon the amount of expense which may be incurred to secure new life insurance or the renewal of old life insurances, limitations upon the amount of surplus which may be maintained by life insurance companies, limitations upon the amount of new life insurance to be acquired in any year by a life insurance company, regulations as to the distribution of dividends in life insurance, additional restrictions upon the investments of insurance companies, regulations of the premium rates in certain kinds of insurance other than life, standard provisions for life insurance policy contracts and for certain kinds of casualty insurance policy contracts and authority to supervising officials to supervise premium rating organizations with power to approve or disapprove as to adequacy and reasonableness the premium rates for certain kinds of insurance.

In addition to all of these there will be found in certain of the states laws calculated to fit purely local conditions and in the State of Texas a compulsory investment law under the provisions of which a life insurance company which transacts business in that state is required to invest and keep invested in Texas securities and in Texas real estate a sum of money equal to at least seventy-five per cent of the aggregate

amount of the legal reserve required by the laws of the state of its domicile to be maintained on account of its policies of insurance in force written upon the lives of citizens of Texas.

ONLY PARTIAL ADOPTION

Notwithstanding the public sentiment which had been aroused by the investigations referred to, few of the states gave heed to the recommendations of the conference of governors, attorney-generals and insurance commissioners or of any of the investigating commissions by enacting in their entirety the bills as recommended. New York adopted the recommendations of the New York Investigating Committee; Wisconsin followed the recommendations of her own investigating commission. In the other states some of the measures were adopted in part, others materially altered and others again rejected altogether.

This varying legislative action must have been taken with the knowledge that the measures proposed were inter-related and that all were essential to the successful operation of the plans for reform. Here, again, the states missed an opportunity to serve the common good by adopting the same regulatory statutes in substantially the same phraseology.

LIMITS IMPOSED BY NEW YORK

There can be no question that some of these more recent regulatory laws were wise exercises of legislative authority and have already proved their value. Possibly, not one of these enactments in any of the states has been more helpful to insurance as well as to the public than the famous Section 97 of the insurance laws of the State of New York, which limits the expense which may be incurred in obtaining new life insurance, as well as the number and amount of renewal

commissions which may be paid to agents as remuneration for maintaining such life insurance in force. In this section New York disclosed a way to make legislation effective beyond the limits of the state and obligatory upon insurance companies located in other jurisdictions for a life insurance corporation of another state or country which shall not conduct its business everywhere within the limitations, and in accordance with the requirements imposed by this section shall not be permitted to do business in the State of New York.

This legislative device, which has aroused resentment on the part of some supervising officials and some companies, has been helpful in many ways. It has made for economy and is largely responsible for the fact that life insurance companies which were hampered in the days of unhealthy and unrestricted competition have grown to be strong and influential factors in the field of life insurance protection.

For the instant purpose the foregoing statement of the origin and general scope of the system will suffice, but of necessity only the outstanding features have been indicated. Very many phases of supervision which involve burdensome requirements wholly unessential to the prime object have been passed over.

OPINIONS RE GOVERNMENT CONTROL

Any system of governmental control which contemplates operation by forty-eight states, each of which prescribes its own rules and regulations, many of which in major as well as in minor respects differ from those of each of the other states, naturally will give rise to controversies and criticisms. There have been many controversies between company managers and insurance supervising officials. This system has been overpraised at times and usually by

governmental representatives and has been criticised both fairly and unfairly by company managers and by writers without either governmental or company relations, but, whatever the nature of these controversies, or the provocation for the criticism, or the justification for the praise, there can be no real difference as to the propriety and the necessity for governmental regulation of corporations, the affairs of which so largely affect the public interest.

What the regulations mean in a given case and whether or not the supervising official when interfering with the affairs of an insurance company or imposing penalties upon individuals under authority of law is acting within the law wisely and judiciously, or whether or not a company through its officers or agents capriciously obstructs the public officials in the performance of their duties or fails to comply with lawful obligations, are fair subjects for discussion. But after seventy years of governmental regulation the propriety and the necessity for state regulation should be treated as adjudicated. This, however, is not always conceded. A learned writer on matters pertaining to insurance, even after the investigation hereinbefore referred to, declared after a critical review of the system and operations that:

Nowhere in our public life can be found better examples of inefficiency than in our state departments of insurance. The reason for this is not difficult to discover. Like all the other state positions, they have been made the spoils of the politician. In a score of states the commissioner of insurance, as the head of the department of insurance is usually called, is elected by a direct vote of the people. Under such a condition the official is bound to be a politician. In several other states he is elected by the legislature, and in the remaining states he is appointed by the governor, in each case with no better results than when elected directly by the people.

Summing up then the main contentions of this paper, the conclusion is that the indictment against state supervision can be sustained. It has failed seriously in the half century that it has been on trial. This failure has been due partly to the fact that the states have directed their activities along wrong lines and partly to the fact that there are conflicting interests among the states. The remedy which has been suggested is in laws securing publicity and responsibility, these laws to be enforced by a national department of insurance.

He was in error in some of his statements as to facts and unfair and wrong in his summing up.

At a somewhat earlier date another writer, then a distinguished member of the National Convention of Insurance Commissioners, declared:

Study the insurance laws of any state which has adopted general and extended regulations. Superficial examination instinctively inspires condemnation, for the lack of system and for the seeming inconsistencies, weaknesses, follies and unnecessary exactions and hardships. Deeper study, that gathers the history of all these laws, convinces that they were not made in moments of thoughtlessness or unprovoked prejudice, but, in the main, deliberately and after infinite, laborious consideration. They have crystallized the wisdom of the fathers, who formulated and developed our institutions. Like those institutions, the insurance laws are not without imperfections, but we take them, as we take this great country, filled with reverence, admiration and respect for the industry, genius, wisdom and patriotism of the authors and builders of our Republic, so splendid in its whole that the defects seem trifling.

It would be strange if later observation and experience have not inclined the author of these words to modify his opinion. A more moderate and more convincing opinion in this same connection is that expressed quite recently in an address to a body of lawyers by a supervising official of an important Northwestern state:

If state supervision breaks down and the public welfare and convenience demand a change, I have no doubt some way of effecting the change will be discovered. However, when one considers the difficulties of securing absolute uniformity of laws and practices in the different states upon any given subject, it must be admitted that great results have been accomplished relative to the supervision of insurance. The situation is far from perfect but many of the early annoyances and abuses have been done away with and unquestionably a far better understanding exists today between the business and the public than ever before. I think that both companies and commissioners realize that the true test of the usefulness of a business is the quality of the service that that business renders the public and that public supervision and control should be administered and exercised in such manner and by such instrumentalities as will secure to the public the best and most economical service, the greatest safety and protection, and will secure for the business adequate returns to maintain its safety and solvency and bring it as much of the public confidence as it proves itself to be entitled to, at the same time causing it the minimum of inconvenience.

Furthermore, let me say that I think we all realize that when a business becomes so highly developed that it reaches a point where its interests and purposes coincide with the interests of the public, public regulation becomes public co-operation.

PRESENT DAY TENDENCIES

Whatever may be the ultimate right judgment as to the value and merits or demerits of state supervision, the system is in operation and under existing or improved methods will continue to operate. The present day tendencies are in the direction of the extension of the authority of supervising officials and there will be more rather than less of regulation. There is a strong sentiment, which can hardly be called a movement, in favor of uniform requirements in all matters of substance and

the elimination of unessential and conflicting statutory requirements.

There is a strong tendency in the direction of rate regulation to the end that premiums for insurances other than life may be adjusted scientifically and uniformly to correspond to the hazards assumed by the insuring company. There is also a strong tendency to improve existing laws in the matter of requirements for reserves which are set aside to protect the liabilities assumed by the companies. Many of the present reserve requirements are not suited to the risks which the companies are now called upon to assume. The reserves called for are either under or over the liabilities and, although the total amount of reserves may be largely in excess of the liabilities, nevertheless the annual statement or report may not disclose the actual condition.

There should be a tendency to reduce the burdens of taxation which now bear so heavily upon the companies and ultimately upon the policyholders. There should also be a tendency to so modify departmental fees and charges that the amount collected will fairly represent the cost of supervision and not result in overpayments so large in amount as to form a considerable part of the revenue of the state. This is a method of acquiring revenue by indirect taxation which is not to be commended.

For years the National Convention of Insurance Commissioners has recognized the necessity for revising the insurance laws of the several states and has been an important factor in bringing about such measure of uniformity in insurance laws as now exists, but when compared with the results achieved in the general direction of uniformity by the Commissioners on Uniform State Laws the results have been disappointing. This is surprising because the National Convention of

Insurance Commissioners, the insurance companies and the policyholders should be more influential in this regard than the Commissioners on Uniform State Laws.

CONTRIBUTION OF AMERICAN BAR ASSOCIATION

In the interests of uniformity of requirement the American Bar Association through its Committee on Insurance Laws is engaged in the preparation of a Code of Statutory Provisions relating to the Business of Insurance, which is intended to emphasize the necessity for a revision of many of the existing Codes and to indicate to legislators and others interested the essentials for the uniform regulation of

insurance and the protection of the public interests.

This Code, when completed, is not likely to be adopted by any of the older states, but may find its way, in whole or in part, into the statute books of the states, the laws of which are now confessedly imperfect and inadequate. The effort of the American Bar Association is to serve the public as well as the insurance companies and the state by collating provisions which have borne the test of time and experience and by suggesting in the way of new legislation ways and means by which the powers of insurance companies may be so classified and enlarged as to meet the public demand for full insurance protection.

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Special Insurance Taxes

By JAMES L. MADDEN, J.D.

Manager, Insurance Department, Chamber of Commerce of the United States

EVERY policyholder pays special indirect taxes. Comparatively few of them realize this. The original intention of these special taxes was to maintain the state insurance departments. A survey covering every state in the Union indicates that only \$1.00 out of every \$27.00 of these special insurance taxes went for this purpose. The rest was used for state functions for which the policyholders had already been taxed as citizens. These state functions had no particular relationship to policyholders as a class, any more than to any other type of taxpayers. Special insurance taxes are hidden in the premiums and the insurance companies are made tax collectors by the states. One of the arguments in favor of these taxes is that they are easily collected. Furthermore, they are "painless," because they are unknown to policyholders. Yet they are just as real as if they were direct taxes.

GROSS AMOUNT INCREASES

Year by year the gross amount of these special imposts paid by policyholders has increased. In 1925 they amounted to \$72,839,721. This would pay an annual premium for more than 4,800,000 ordinary life insurance policies issued at the age of twenty-five for \$1000 each, or would buy fire insurance coverage for one year on \$8,184,000,000 worth of property at the average rate of eighty-nine cents per \$100. Contrasting this figure, \$72,839,721, with the total amount collected from policyholders in 1922, we find that it is about \$20,000,000 higher, yet the increase in the amount of money spent for

the maintenance of state insurance departments was just a little over \$337,000 during this time.

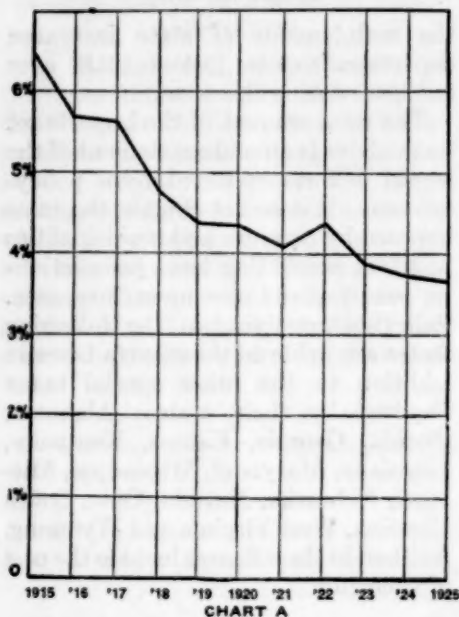
The total amount of the imposts set forth above is an understatement of the actual amount collected from policyholders. It does not contain the sums imposed by counties and municipalities in states permitting local jurisdictions to put special taxes upon insurance. Policyholders living in the following states are liable to these extra taxes in addition to the other special taxes required by their states: Alabama, Florida, Georgia, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Missouri, Nebraska, Nevada, Ohio, South Carolina, West Virginia and Wyoming. Neither do these figures include the cost of collection.

TREND OF SPECIAL INSURANCE TAXES

The proportion of special insurance taxes collected from policyholders which is spent for service to them has been constantly declining from 6.48 per cent in 1915 until it amounted to only 3.65 per cent in 1925. In that year 96.35 per cent of these special imposts was spent for general state purposes. There is given below the percentage of the total receipts from special insurance taxes and fees used for maintenance of state insurance departments by years from 1915 to 1925 inclusive. These figures are based on data from the District of Columbia and all states with two exceptions. Figures for Louisiana are not available for any of the years and figures for Pennsylvania were included only from 1922 through 1925.

Chart A which is plotted from these data clearly indicates the downward trend of the percentage of imposts spent for policyholders' service.

PERCENTAGE SPENT FOR SERVICE TO
POLICYHOLDERS



Any policyholder can tell by looking at the analysis entitled "Special State Insurance Licenses, Taxes and Fees Collected in 1925"¹ the amount of the special imposts being levied indirectly upon policyholders by his state. He can learn the amount of these imposts which goes for special service to him as a policyholder, the remainder representing contributions to the general state funds. Analyzing the record of the different states, we find that thirty of them spent a smaller proportion for service to policyholders in 1925 than during the preceding year, while eighteen show increases. None showed a material increase and in the vast majority the increases were extremely small. In order to indicate the trend

¹ See p. 200.

by years, taking the country as a whole, the following summary may be of interest. It shows the number of states increasing or decreasing the proportion of special state insurance taxes used for service to policyholders as compared with the previous year.

	1922	1923	1924	1925
States decreasing.....	18	29	33	29
States increasing.....	29	18	13	19
States showing no change..	..	1	2	..
States giving no data.....	2	1	1	1
Total states and D. C...	49	49	49	49

DEPARTMENTAL EXPENSES VS. SPECIAL TAXES

The graph, Chart B, indicates how much faster special insurance taxes and fees have increased, during the eleven-year period 1915-25 inclusive, than insurance departmental expenses. The 1915 figures are used as a base and designated as 100. Figures for all states and the District of Columbia are included, with the exception of Louisiana and Pennsylvania, as data for these two states were not obtainable for the entire period.

TREND OF TAXES AND EXPENSES

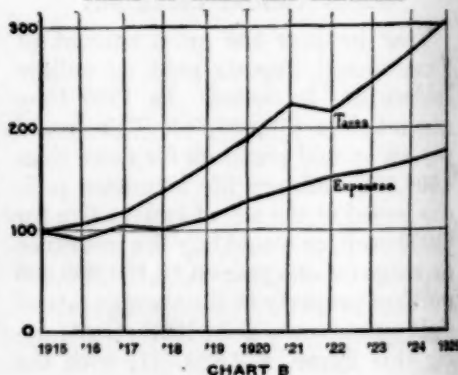


CHART B

WHO PAYS THE TAXES?

Although the states impose upon insurance companies the responsibility

for payment of these various special taxes, the companies necessarily charge them to overhead expense which is passed on to policyholders. The result is the policyholder pays a larger sum for his insurance or else he decides, to his own detriment, to carry a smaller amount because of the increased cost.

In addition to the taxes themselves, the cost of collecting and turning these monies over to the proper authorities creates a large extra expense which must be paid by policyholders. In other words, the state not only imposes these taxes upon policyholders, but also makes them pay the collection expenses.

COST OF COLLECTION

It has been estimated that the cost of collecting this great variety of taxes runs as high as ten to twenty per cent of the amount of the taxes, according to the type of insurance. The following illustration will show how these expenses occur: A fire insurance company operating in a number of states must keep its records so that the premium taxes and all the above mentioned variety of other special levies may be computed for each state. In some states it may also have to compute upon different bases the amount which it owes each city and town. As it is essential for the company to keep pace with the manifold changes in the tax laws of our various states, experts must be employed.

The cost of the clerical, administrative and other overhead expenses incurred in collecting these taxes as well as the commission paid to agents on that portion of the premium representing taxes must be borne by the policyholders, even though it does not show up separately from other overhead expenses in the insurance company's balance sheet.

LACK OF UNIFORM METHODS

The taxation methods of the various states are quite diverse. In most cases the systems used are unsound, besides placing a very heavy burden upon policyholders. So the reader may know the types of taxation which have been adopted in his state, a table has been prepared which shows the usual forms of taxes levied upon fire and life companies in each state of the Union.² It is worthwhile to note the dissimilarity between the processes of the various states in levying special taxes as well as to emphasize the unsound economic character of the majority of these levies.

The Premium Tax

Probably the most unjust special tax paid by policyholders is the premium tax. The percentage collected varies. In some states it is based on the gross premiums collected; in a number of others, it is based on the gross premiums less return and reinsurance premiums; while in still others, the amount on which the taxes will be levied is determined in ways different from either of these.

When return premiums or dividends to policyholders are not deducted, a tax has been placed upon funds which are not used for providing protection and which actually belong to the policyholder. When a deduction is not permitted for reinsurance premiums paid to a company to which part of the insurance has been ceded, and that company also pays a tax on the premiums it received from the direct writing company, there is double taxation. Many states allow no credit for insurance ceded to non-admitted companies, while several levy an even higher rate on business ceded to unauthorized companies.

Inasmuch as the tax levied upon the

² See p. 201.

gross receipts of an insurance company is similar in its effect to the tax upon the gross turnover of any other business, this fact must be kept in mind in any comparison that is made between taxes on insurance and on such other business. To be comparable, the tax on industrial plants or mercantile establishments should be on gross sales. A tax of three or four per cent on the gross sales of a business or on the average deposits in a bank, however, would result in a wave of protest. Yet the tax on insurance is just as real, although not so apparent.

As the premium tax must be paid whether or not the company is operating at a profit, it is thus levied on losses and indebtedness. Since this will tend to discourage rather than promote the growth of insurance, it is necessarily an unsound means of taxation. Furthermore, the premium tax is inequitable:

(a) As between policyholders—since this tax is levied upon premiums, it is evident that the premium paid by a life insurance policyholder having one of the higher premium forms of policies, such as endowment, or a policy taken out at a late age, is subject to a greater tax. For example, we find by using the rates of one life insurance company that its premium on an ordinary life policy issued to a man age forty-seven would be subject to over twice as much tax as on a similar policy issued to a man age twenty-five, because the annual premium is a little more than double for the older age. No other form of tax is levied so as to be dependent upon age, and there appears to be no justification for a form of taxation which has such effect.

Because of the extra mortality of industrial policyholders and the heavier expense loading which is necessary to meet the cost incidental to the method of collecting premiums, the premium

rate is higher for industrial than for ordinary insurance. In view of the fact that the taxes are based on premiums, the industrial policyholders as a class consequently pay a greater amount of tax in relation to the amount of insurance than the holders of ordinary policies. The individual, therefore, who is badly in need of insurance, but must carry it on a weekly payment plan because of his financial circumstances, is thus penalized by the state. This is obviously unfair.

The same situation as regards discrimination between policyholders applies equally well to the holders of fire or casualty insurance contracts on risks having a greater hazard. For example, the manufacturer of a product which is inflammable must pay a larger tax in proportion to the amount of insurance carried than the manufacturer of a product to which no fire hazard is attached.

(b) As between policyholders in different states—when different states charge varying rates on premiums collected by life insurance companies within their borders, the policyholders in states with the lower rates of tax must contribute to pay the taxes in states where the rates are higher.

In some states we find that the state legislators use the gross premium method of life insurance taxation as an inducement for the companies to invest their assets within the state. In Colorado, for example, no tax is payable if fifty per cent of the total assets of a company are invested there, otherwise, the tax is two per cent on gross premiums. In North Carolina a gross premium tax of two and one-half per cent is imposed which may be reduced to one and one-fourth per cent if the companies invest in that state twenty-five per cent of their total assets. In the event the insurance companies invest seventy-five per cent of these

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assets, the rate is reduced to one-quarter of one per cent and the companies' license fee is also lessened. Under the so-called Robertson law in Texas, the rate is three per cent on gross premium receipts subject to reduction to $2\frac{6}{10}$ per cent when investments in Texas securities equal thirty per cent of Texas reserves, $2\frac{3}{10}$ per cent when they equal sixty per cent and two per cent when they equal seventy-five per cent of such reserves.

Georgia, Idaho and South Carolina also reduce the rate according to the amount of reserve invested in their respective states. Since different companies may as a result be paying different rates of taxation, discrimination between policyholders in the same state is inevitable. While the illustrations which have been cited apply to life insurance premiums, the same method of taxation is used for premiums on other types of coverage.

The investment of insurance assets should not be confined by legislation within state borders. One of the fundamental rules of insurance finance is that there should be a broad distribution of risk in making investments. Safety of principal and an assured interest return are primary considerations. Reduction in premium taxes which must ultimately be paid by policyholders should not be held out as an inducement for the violation of fundamental principles. If it is, policyholders may pay a far greater sum through insecurity or lower yield of invested assets than the amount of the unjust premium taxes.

License Tax and Tax for Filing Annual Statement

In many states each company is required to pay an annual license tax before it can operate. This ranges from a very small amount to \$300, as in Maryland and Wisconsin. In the lat-

ter state the fee is in lieu of all premium taxes except retaliatory taxes. A fee is also charged for filing the company's annual statement. This likewise varies in amount, running as high as \$100.

While these fees may be comparatively small in some states, it must not be forgotten that many companies transact business in a number of states and, therefore, have a multiplicity of such fees to pay. The total amount collected in this manner is therefore large.

Even though insurance companies, which have their own agencies or brokerage contracts, have paid their annual license fees, they cannot procure business in most states until their representatives, agents or brokers pay individual annual license fees.

Agents' and Brokers' Licenses

The regulations as to licensing agents and brokers are quite different in the various states. In most states the local agent pays a fee ranging generally between \$1.00 and \$10.00. Georgia charges a special or general agent of a life insurance company an annual license fee of \$100. Several other states do likewise. There is a constantly increasing number of states which charge general, special agents' and adjusters' license fees. The practice of charging for brokers' licenses is not universal, but in a number of states which do so the rate is very high.

Publication Fee

Many states require that a company's certificate of authority, annual statement, or abstract of annual statement be published a given number of times in a certain designated class of papers. In some cases this is attended to by the state at the company's expense—while in others the company itself must make provision for such publication. The number of times and the number of papers in which publica-

tion must be made vary in different states. For example, the company's certificate of authority must be published in Ohio in each county where there is an agency. In Minnesota, an abstract of the annual statement must be printed three times in one newspaper in the three most populous counties. The fees charged may be the actual publication expense, the authorized rate for legal notices, or an amount determined by some other method.

It does not seem the publication of an annual statement or the company's certificate of authority should be required. Inasmuch as the great majority of people do not read and cannot understand these statements, the money paid for printing them is a useless expenditure. In the event a policyholder or prospective policyholder desires detailed information regarding any particular company, he is always able to obtain same from the company itself or from the insurance commissioner of his state. Since the fees paid by a company which operates in many states are quite large with no resultant good to the policyholders who are obliged to pay them, there appears to be no justification whatever for their continuance.

Fire Marshal Tax

A great many states levy a tax based on fire insurance premiums, usually ranging between one-tenth and one-half of one per cent to raise funds for supporting the office of the state fire marshal. As the purpose of this office is to investigate fires, prosecute arson cases and conduct fire prevention activities, it is of general service to all property owners in the state. The taxation of fire insurance policyholders alone for the purpose of supporting it is inequitable since non-policyholders profit just as much from its operation.

In Ohio, for example, there is a tax of one-half of one per cent of the gross premium on fire insurance for the maintenance of the fire marshal's office, but in Ohio the duties of the fire marshal are not even limited to the work of preventing and investigating fires. He must go around among the eating houses and inspect them and make certain that they conduct their affairs in a manner conducive to public health and happiness. He must make sure that the hotels are kept clean and sanitary, and he must consider the comfort of the weary traveler overtaken by night within the borders of the state. To such he must insure the full protection of the law governing the length of sheets upon the beds. The fire insurance policyholders of the State of Ohio are paying the fire marshal for performing these and other public services—the policyholders alone and no other class of citizens.

Fire Department Tax

Taxes ranging between one-half and two per cent of fire insurance premiums are collected in a number of states for the purpose of supporting local fire departments and firemen's relief funds. The necessity of maintaining adequate fire departments and of providing relief funds for injured firemen is recognized, but as in the case of the fire marshal's tax, it is unfair that one particular group of citizens should be singled out to bear the cost of a service which benefits all residents.

Special taxes levied for the purpose of operating salvage corps or fire patrols are subject to the same criticism. It is unquestionable that these organizations are of real value in saving property threatened by fire, and salvaging that which might otherwise have been a total loss. In their operations, however, they make no distinction between policyholders and non-policyholders,

but the policyholders pay for their support. For example, the City of Philadelphia collects a one and one-fourth per cent tax on net fire insurance premiums which it uses to operate the fire patrol.

Retaliatory Tax

The great majority of states have retaliatory legislation which usually applies to all forms of licenses, taxes and fees. Although the retaliatory tax is designed to penalize the companies of a state where a higher rate is charged, it may indirectly recoil upon companies and citizens in its own state. Its citizens may be policyholders of the company on which the tax is levied. For this reason, the existence of retaliatory laws in other states may at times have been a contributing factor in persuading a legislature against a proposal for an increase in the premium tax rate.

Reciprocal Tax

A very commendable system of taxation has been adopted by several states for the upbuilding of their domestic institutions by what is known as reciprocal taxation. Under this method any favorable treatment received by a domestic company in other states is reciprocated. The taxes and restrictions are modified for the companies of those states whose laws accord, to the domestic company, treatment less expensive or severe than the law which the initial state prescribed for the conduct and government of companies generally.

The term retaliatory taxation is often wrongly designated as reciprocal. A favor is reciprocated and a wrong retaliated. A state having reciprocal laws reciprocates favors shown its domestic companies by other states and thereby encourages and assists in the growth and stability of its domestic institutions.

County and Municipal Licenses and Taxes

Taxation of insurance by counties or municipalities except on real property is forbidden by most states. There are a number which permit these local jurisdictions to levy taxes on insurance companies and on their agents. The methods used by these various localities are quite diverse. For example, in Alabama each city may levy upon life insurance companies a certain basic fee dependent upon the size of the city, as well as a one per cent tax on gross premiums collected therein on business issued during the tax period.

In the State of Mississippi there is a body known as the Levee Commissioners of the Yazoo-Mississippi Delta Levee District. By act of the legislature this Levee District is authorized and levies the same privilege taxes on insurance companies that are levied by the state. Consequently, in addition to paying \$200 per annum for the privilege of doing business in the State of Mississippi, companies in the Yazoo-Mississippi Delta Levee District, comprising ten counties, must pay an additional \$200 for the privilege of maintaining an office and agents in the Levee District.

At the present time there are approximately 125 or 130 cities and towns in Missouri which collect a municipal license tax from insurance companies amounting to one per cent or more of the premiums received.

Using fire insurance as an illustration, it was recently brought out in a hearing in Kentucky that municipal tax charges against fire insurance companies range from \$5.00 to \$75,028.75. These taxes are, of course, being paid by policyholders in addition to the special taxes imposed by the state. It was also developed that the cost of maintaining a salvage service for Louisville

was assessed upon the insurance companies and paid by the policyholders. Such salvage services are designed to keep at a minimum the amount of property damaged as a result of fire or water used in fighting fire. This is a municipal function just as much as the maintenance of fire departments or health departments. There are other cities which indirectly tax policyholders for the maintenance of salvage corps, organizations which function not only in behalf of policyholders but the community generally. In effect, the policyholders, a special class of citizens, are maintaining these organizations for the protection of the general community.

Miscellaneous Taxes

Numerous illustrations of other types of taxes may be cited. For example, in Kansas there is a flat tax on every insurance company of \$50 for the school fund. In Oklahoma all life insurance premium taxes are segregated to a fund for the support of the schools. There appears to be no special reason why insurance companies should be called upon to maintain the schools by direct taxation, any more than jewelers as a class should be so taxed. In the end, the policyholder and not the company pays it.

RECOMMENDATIONS

The Advisory Committee to the Insurance Department of the National Chamber has carefully reviewed the existing special insurance taxation situation as related to the interests of policyholders. The committee did not consider taxes paid by insurance companies in common with other forms of business. The following recommendations were made:

Special taxation should be limited to such a total as will adequately support the state's insurance departmental supervision. Any excess is unjust in that it is levied on only a portion of the public and is discriminatory against those who believe in

thrift and protection and is wasteful in that it is obtained at a collection cost far beyond that of regular taxes. For the policyholders' benefit these evils should be corrected. The following specific recommendations are made toward this end:

I. While the Insurance Advisory Committee does not believe in the equity or justice of the present system of premium taxation, it nevertheless thinks this system may have to be continued for some time to come. In this event, the Insurance Advisory Committee believes—

(1) There should be a material reduction in the amount of premium taxes collected. As indicated above, these should be limited to such a total as will adequately support the state's insurance departmental supervision.

(2) In fire and casualty insurance, reinsurance and returned premiums, dividends to policyholders and losses should be deducted from gross premiums before the rate of taxation is applied to the premium income.

(3) In life insurance, reinsurance, cash and applied dividends to policyholders, matured losses, endowment and cash surrender values should be deducted from gross premiums before the rate of taxation is applied to the premium income.

(4) The above method of taxation should be made uniform throughout the country.

II. The Insurance Advisory Committee thinks it highly desirable to have the following licenses, taxes and fees consolidated into a single payment:

1. License taxes.
2. Taxes for filing annual statements.
3. Publication fees.
4. Fire marshal taxes.
5. Fire department and relief fund taxes.
6. Agents' and brokers' licenses.
7. Retaliatory taxes.
8. Municipal licenses and taxes relative to fire insurance.
9. Other miscellaneous fees, such as those for supporting salvage corps, etc.

The amount of the single payment to replace the numerous state charges above mentioned should not be higher than the corresponding franchise or capital stock tax

levied upon other business corporations.

III. It is recommended that the State Insurance Department be supported by an appropriation from the legislature and not from the numerous types of taxes and fees, the abolishment of which has been recommended. The state insurance department should primarily be considered as a service organization rather than a means of revenue.

The United States Chamber of Commerce is definitely opposed to the existing system for special state insurance

taxes. In 1924 member organizations committed it to the following resolution:

Special state taxes now levied on policyholders through insurance companies should not be considered as a source of general revenue but should be reduced to the total in each state which will adequately support such state's departmental supervision, and a uniform principle of taxing the holders of insurance should be adopted throughout the states.

SPECIAL STATE INSURANCE LICENSES, TAXES AND FEES COLLECTED IN 1925

States	Licenses, Taxes and Fees Collected by—		Total (so far as Reported)	Expenses of Insurance Department	Ratio Spent for Service to Policyholders	Ratio Used for Other State Purposes
	State Insurance Department	State Treasurer or Other Official				
Alabama.....	\$768,020	\$2,900	\$770,920	\$26,687	3.46	96.54
Arizona.....	258,488	.....	258,488	4,700	1.82	98.18
Arkansas.....	516,607	47,250	563,857	17,500	3.10	96.90
California.....	219,992	4,368,885	4,588,877	66,566	1.45	98.55
Colorado.....	642,687	.....	642,687	40,884	6.36	93.64
Connecticut.....	764,289	4,412,173	5,176,462	54,336	1.05	98.95
Delaware.....	148,175	.....	148,175	5,700	3.85	96.15
District of Columbia.....	.....	299,754	299,754	19,914	6.64	93.36
Florida.....	.....	a 617,573	617,573	5,576	.90	99.10
Georgia.....	769,917	.....	769,917	12,553	1.63	98.37
Idaho.....	212,162	.....	212,162	12,427	5.86	94.14
Illinois.....	5,175,055	646,149	5,821,204	188,929	3.25	96.75
Indiana.....	1,657,837	.....	1,657,837	67,673	4.08	95.92
Iowa.....	183,641	1,220,066	1,403,707	110,609	7.88	92.12
Kansas.....	1,031,605	.....	1,031,605	48,952	4.75	95.25
Kentucky.....	943,934	.....	943,934	40,793	4.32	95.68
Louisiana.....	b 35,000	.....	35,000	c	.....	.....
Maine.....	44,828	404,496	449,324	12,066	2.69	97.31
Maryland.....	898,956	.....	898,956	46,998	5.23	94.77
Massachusetts.....	306,881	2,653,564	2,960,445	122,583	4.14	95.86
Michigan.....	2,554,443	25,508	2,579,951	89,796	3.48	96.52
Minnesota.....	134,916	1,479,911	1,614,827	61,914	3.83	96.17
Mississippi.....	609,187	.....	609,187	8,500	1.40	98.60
Missouri.....	132,852	2,203,985	2,336,837	85,553	3.66	96.34
Montana.....	285,562	13,475	299,037	11,335	3.79	96.21
Nebraska.....	468,828	22,382	491,210	29,996	6.11	93.89
Nevada.....	24,444	5,000	29,444	b 1,800	6.11	93.89
New Hampshire.....	32,417	285,691	318,108	9,880	3.11	96.89
New Jersey.....	1,736,672	1,716,866	3,453,538	199,345	5.77	94.23
New Mexico.....	108,143	.....	108,143	5,466	5.05	94.95
New York.....	2,233,320	5,194,231	7,427,551	629,691	8.48	91.52
North Carolina.....	1,434,465	.....	1,434,465	31,861	2.22	97.78
North Dakota.....	278,808	b 1,500	280,308	15,135	5.40	94.60
Ohio.....	230,919	4,438,018	4,668,937	78,250	1.68	98.32
Oklahoma.....	811,871	131,792	943,663	33,628	3.56	96.44
Oregon.....	665,819	.....	665,819	34,131	5.13	94.87
Pennsylvania.....	5,561,838	261,803	5,823,641	110,949	1.91	98.09
Rhode Island.....	23,341	514,688	538,029	15,613	2.90	97.10
South Carolina.....	405,471	.....	405,471	18,468	4.55	95.45
South Dakota.....	43,835	363,493	407,328	15,313	3.76	96.24
Tennessee.....	1,321,440	.....	1,321,440	29,080	2.20	97.80
Texas.....	2,041,003	.....	2,041,003	34,701	1.70	98.30
Utah.....	201,005	.....	201,005	7,529	3.75	96.25
Vermont.....	26,010	261,231	287,241	7,385	2.57	97.43
Virginia.....	63,753	1,288,339	1,352,092	55,243	4.09	95.91
Washington.....	1,079,800	.....	1,079,800	63,776	5.91	94.09
West Virginia.....	760,908	.....	760,908	15,297	2.01	97.99
Wisconsin.....	1,985,530	.....	1,985,530	46,236	2.33	97.67
Wyoming.....	124,324	.....	124,324	b 10,000	8.04	91.96
Totals—1925.....	\$39,958,998	\$32,880,723	\$72,839,721	\$2,661,317	3.65	96.35
Totals—1924.....	34,858,928	32,872,643	67,731,570	d 2,513,467	d 3.71	d 96.29
Totals—1923.....	26,550,951	33,190,878	59,741,828	2,314,565	3.87	96.13
Totals—1922.....	24,659,601	28,356,198	53,015,799	2,323,889	4.37	95.63

a—Capital stock tax not included. b—Estimated by Insurance Commissioner. c—Expenses not segregated.

d—The difference between this figure and the 1924 total shown in Bulletin No. 21 is due to a correction in the North Carolina figure, received from the Insurance Commissioner of that state since the publication of Bulletin No. 21.

NOTE.—While the tabulation is complete insofar as insurance department expenses are concerned, except for Louisiana, it is important to note that in the case of some states all the taxes, licenses and fees are not included. As regards state levies, this is because part of them are paid to state treasurers and other officials whose books may be kept in such manner as to render it impossible to segregate the insurance data. As for the amounts collected by counties and municipalities in those states permitting local jurisdictions to tax insurance companies and their agents, it was found no central state agency had compiled the information. Among the states where local taxes or fees were levied but the amounts were unavailable are Alabama, Florida, Georgia, Kansas, Kentucky, Louisiana, Maryland, Mississippi, Missouri, Nebraska, Nevada, Ohio, South Carolina, West Virginia and Wyoming.

TYPES OF SPECIAL STATE INSURANCE LICENSES, TAXES AND FEES

States	Fire								Life							
	Premium Tax	License Tax (Company)	Fee for Filing Annual Statement	Fire Department Tax	Fire Marshal Tax	Agent's License Fees	Publication Fees	Retaliatory Taxes, Fees, etc.	Premium Tax	License Tax (Company)	Fee for Filing Annual Statement	Agent's License Fees	Publication Fees	Charge for Company Examination	(Local Taxes Other than Property)	Retaliatory Taxes, Fees, etc.
Alabama.....	Y	Y	Y	F	Y	Y	Y	Y	Y	Y	R	Y	Y	Y	Y	Y
Arizona.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	..	Y	..	Y ^a
Arkansas.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	Y	Y	..	Y
California.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	Y	Y	..	Y
Colorado.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	Y	Y	..	Y
Connecticut.....	Y & R	Y	Y	..	..	Y	..	Y	R	Y	Y	Y	..	Y	..	Y
Delaware.....	Y	Y	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
District of Columbia.....	Y	Y	..	..	..	Y	Y	..	Y	Y	..	Y	Y	..	..	..
Florida.....	Y	Y	Y	..	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Georgia.....	Y	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y ^b	Y	Y	Y	Y
Idaho.....	Y	Y	Y	..	..	Y	..	Y	Y	R	Y	Y	Y	Y	..	Y
Illinois.....	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
Indiana.....	Y	..	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
Iowa.....	Y	..	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
Kansas.....	Y	..	Y	Y	Y	Y	..	Y	Y	R ^c	Y	Y	..	Y	Y	Y
Kentucky.....	Y	..	Y	..	..	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y
Louisiana.....	Y	Y	Y	Y	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y
Maine.....	Y	Y	R	..	..	Y	Y	Y	Y	Y	R	Y	Y	Y	..	Y
Maryland.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	Y	Y	..	Y
Massachusetts.....	Y	..	Y	..	..	Y	..	Y	R ^d	R	Y	Y	..	Y	..	Y
Michigan.....	Y	R	Y	..	..	Y	..	Y	Y	R	Y	Y	Y	Y	..	Y
Minnesota.....	Y	Y	Y	..	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	..	Y
Mississippi.....	Y	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..
Missouri.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y
Montana.....	Y	Y	Y	..	Y	Y	Y	Y	Y	R	Y	Y	Y	Y	Y	Y
Nebraska.....	R	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y	Y	Y
Nevada.....	..	Y	Y	..	..	Y	Y	..	..	Y	Y	Y	Y	Y	Y	..
New Hampshire.....	Y	Y	Y	..	..	Y	..	Y	Y	R	Y	Y	..	Y	..	Y
New Jersey.....	Y	..	Y	Y	..	Y	..	Y	R	R	Y	Y	..	Y	..	Y
New Mexico.....	Y	Y	Y	..	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
New York.....	Y	R	Y	Y	..	R	..	Y	Y	R	Y ^e	R	R	Y	..	Y
North Carolina.....	Y	Y	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
North Dakota.....	Y ^f	Y	Y	..	Y ^f	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Ohio.....	Y	Y	Y	..	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y
Oklahoma.....	Y	Y	R	..	Y	Y	..	Y	Y	Y	R	Y	Y	Y	..	Y
Oregon.....	Y	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Pennsylvania.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	Y	R	..	Y
Rhode Island.....	Y	..	Y	..	..	Y	Y	Y	Y	R	Y	Y	Y	Y	..	Y
South Carolina.....	Y	Y	..	Y	Y	Y	..	Y	Y	Y	..	Y	..	Y	Y	..
South Dakota.....	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
Tennessee.....	Y	Y	Y	..	Y	Y	..	Y	Y	R	Y	Y	Y	Y	..	Y
Texas.....	Y	Y	Y	..	..	Y	Y	..	Y	Y	Y	Y	..	Y	..	Y ^g
Utah.....	Y	Y	Y	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..	Y
Vermont.....	Y	Y	Y	..	Y	Y	..	Y	Y	Y	Y	Y	..	Y	..	Y
Virginia.....	Y	Y	R	..	..	Y	..	Y	Y	R	Y	Y	..	Y	..	Y
Washington.....	Y	Y	Y	..	..	Y	..	Y	Y	Y	Y	Y	..	Y	..	Y
West Virginia.....	Y	Y	Y	..	Y	Y	..	Y	Y	Y	Y	Y	..	Y	Y	Y ^h
Wisconsin.....	Y	R	Y	Y	Y	Y	..	Y	R	Y	Y	Y	..	Y	Y	Y
Wyoming.....	Y	..	Y	..	..	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	..

Revised to November, 1926.

Y—Indicates such a tax is levied.

F—Firemen's pension tax.

R—Indicates tax is retaliatory.

a—Retaliatory law applies only to deposit requirements and fees for filing articles of incorporation.

b—County license fee also imposed.

c—School fund fee also collected.

d—Also excise tax of $\frac{1}{4}$ of 1% upon net value of policies on lives of Massachusetts residents.

e—Reciprocal for companies of other states but fixed for those of foreign countries.

f—Domestic fire companies pay fire marshal tax, but no premium tax; other fire companies pay premium tax but no fire marshal tax.

g—Retaliatory law applies only to deposit requirements.

h—Retaliatory law applies only to fee for valuation of policies, and taxes, fees, etc., imposed on agents or brokers.

¹ Note.—This chart indicates merely the different types of special taxes, licenses and fees, and does not show exceptions. Thus the Connecticut premium tax, indicated by "Y" in that column, applies only to companies incorporated under foreign governments. Companies of other states pay a premium tax only under reciprocal provisions.

State Insurance Funds: Optional and Monopolistic

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THE growing extent to which insurance in its manifold forms has been utilized by the great masses of our population during recent years, together with the vast assets which, by the very nature of the business, have been accumulated by insurance companies, has resulted in considerable legislative attention being focused upon this institution. Laws have not always been confined to the supervision and regulation of private companies in order to safeguard the rights of the public, but in some cases have been designed to place the state in the position of an insurance carrier either in competition with private companies or to their exclusion. A variety of reasons has been advanced for this. The government life insurance plan was adopted as a war measure, teachers' and public employes' retirement systems have been devised to assist faithful workers in their endeavor to provide for old age, and bank guaranty laws represent an effort to protect the public from the hardships incident to bank failures. One motive which appears to have wielded considerable influence in the creation of some types of funds is a belief, especially on the part of those unversed in the knowledge of insurance underwriting, that the state can furnish insurance protection and all its collateral services at a lower cost.

Before proceeding to a more detailed analysis of the funds which have been established by various governmental agencies, it may be helpful to consider the amount of business transacted by them as a whole.

The premium income received in 1925¹ by the parcel post and registered mail insurance funds, soldiers' and sailors' life insurance fund, government employes' retirement fund and District of Columbia teachers' pension fund, all of which are operated by the Federal Government, totaled nearly \$80,000,000. At least a like amount should be added for the state funds described in this article. As there are also numerous county and municipal insurance and pension plans in existence, an estimate of \$200,000,000 as the amount received in the year 1925 by all governmentally operated insurance, pension and guaranty funds is doubtless conservative.

The following pages will be devoted to a brief review of the various funds created by different states which may properly be considered of an insurance nature. No attempt will be made to cover the Federal funds referred to above or the county and municipal insurance plans for protecting public property or providing pensions to teachers or public employes.

TIME OF ENACTMENT

The states had done very little towards the creation of insurance funds prior to 1910, but the period 1911 to 1915 inclusive witnessed considerable activity along this line, which was maintained also during the succeeding five years. Since then fewer funds have come into existence and a number

¹ All figures used in this article are for the calendar year stated or fiscal period ending in that year, unless otherwise noted.

have been rendered inoperative by repeal of the law, exhaustion of the fund, or withdrawal of contributors. The trend in the establishment of insurance, pension and guaranty funds may be seen by referring to the subjoined table.

possibility of state funds in connection with proposed compulsory automobile liability insurance legislation has also received considerable attention, though it is difficult to understand how a state could write liability insurance since the

DATES OF ADOPTION
(State Fund Laws)

	Workmen's Compensation	Teachers' Pension	State Em- ployes' Pension	Hail	Bank Guaranty	Fire Ins. on State Property	Life	Public Depos- it Guaranty	Bonding	Torrens Title	Total
Before 1905.....	..	1	..	..	..	2	..	..	..	6	9
1906-1910.....	..	1	..	..	4 ^c	..	1	..	..	2	8
1911-1915.....	13	10	1	1	2	3 ^c	1	..	1	3	35
1916-1920.....	3	4	1	4 ^b	2 ^d	4 ^f	..	..	1	7	26
1921-1925.....	1	2	2	..	..	4 ^g	..	2	..	..	11
	17	18 ^a	4	5	8	13	2	2	2	18 ^b	89

* Maryland school pension fund not included.

^b Oklahoma hail law repealed in 1925.

^c Oklahoma bank guaranty law repealed in 1923.

^d Washington Bank Guaranty fund now inoperative—all member banks have withdrawn.

^e New Jersey fire fund not yet in operation—Michigan and Minnesota funds exhausted.

^f Vermont fire fund not yet in operation—South Dakota's is an emergency reserve appropriation.

^g Colorado, Iowa and Oregon's funds are established by appropriations to be used as emergency reserve.

^h Many of these funds are inoperative.

NOTE.—Arizona, Nevada and Rhode Island have teachers' pension laws but since they are non-contributory and do not provide for the creation of a fund, they have been omitted from the tabulation. Connecticut and Maine have state employees' pension laws which have been excluded for the same reason.

Notwithstanding the fact that fewer funds were initiated between 1921 and 1925 than during either of the two preceding five-year periods, there was nevertheless a great amount of agitation for state insurance. Some idea of the extent of this as respects workmen's compensation may be obtained from information supplied by F. Robertson Jones, Secretary-Treasurer, Workmen's Compensation Publicity Bureau set forth in the footnote below.² The

very nature of that type of coverage would thus place a governing body in

records, been introduced and subsequently defeated in the following states and territories:

Alaska—1921 and 1923

Arizona—1921

Connecticut—1921

District of Columbia—66th, 67th, 68th and 69th (bill pending) congresses

Florida—1921 and 1925

Georgia—1922

Illinois—1921 and 1925

Kansas—1921

Kentucky—1922

Maine—1921

Massachusetts—1922, 1923 (2 bills), 1924 (2 bills), 1925 and 1926 (2 bills)

² Excerpt from letter of December 13, 1926.

"During the years 1921-26, inclusive, bills to create monopolistic state workmen's compensation insurance funds have, according to our

the position of defending one citizen against another.

TYPES OF FUNDS

The following analysis of the types of funds, the extent of their operations and the results achieved can of necessity touch only the high points because of limited space, but it is hoped it may serve to point out the tendencies and perhaps certain of the dangers incident to particular types of state insurance activities.

WORKMEN'S COMPENSATION

Under the workmen's compensation laws of most states, employers are obliged to guarantee the payment of certain prescribed benefits to workers injured in industry.

Monopolistic.—Nevada, North Dakota, Ohio, Oregon, Washington, West Virginia and Wyoming require all workmen's compensation insurance to be written with the state fund. In three of these self-insurance is permitted and in two others private employers may carry employer's liability insurance, as the law is elective.

Minnesota—1921 and 1923
Missouri—1921, 1923, 1924 and 1926
Nebraska—1925
New Jersey—1921
Wisconsin—1923 and 1925

"During the same years, bills to create such monopolistic state funds where competitive state funds already existed were introduced and subsequently defeated in the various states as follows:

Idaho—1921
Maryland—1924
Montana—1921 and 1923
New York—1921, 1922, 1923 (2 bills), 1924, 1925 and 1926
Utah—1923

"Furthermore, in 1925 bills to create competitive state funds were introduced in Arizona and Illinois—the Arizona bill of that year being enacted and now in effect and the Illinois bill being defeated."

In the latter case common-law defences are removed, but in spite of that fact many employers in Oregon avail themselves of this privilege.

Competitive.—Arizona, California, Colorado, Idaho, Maryland, Michigan, Montana, Pennsylvania, New York and Utah have created funds with which the employer may carry his workmen's compensation risk if he so desires, although he is given the option of taking insurance with a private company or becoming a self-insurer upon meeting certain standards of solvency.

During the year 1920, when all state compensation insurance funds, other than Arizona,³ were in actual operation, their combined premium income was 19.0 per cent of that written in the United States by the principal types of carriers (reciprocals and self-insurers being excluded since no data were available). For the year 1925 the ratio was 17.1 per cent. This change was in part due to a growth in the amount of business written by stock companies in states not having compensation funds and in part to a drop in the premium income of monopolistic funds not entirely offset by an increase in the competitive. The premiums received by each type of carrier during the years 1920 and 1925 will be found on following page.

While the state funds did not bulk so large in 1925 for the country as a whole, the proportion written by the competitive funds as compared with private companies in those states where both types of insurance were available remained substantially the same, although the relative proportion received by some individual funds decreased while that for others increased. Statistics for 1925 show the wide

³ The Arizona fund did not commence activities until March, 1926, so has developed relatively little experience.

PREMIUM RECEIPTS—WORKMEN'S COMPENSATION INSURANCE

	1920		1925	
	Amount	Per cent of Total	Amount	Per cent of Total
Stock Companies*	\$119,788,048	61.0	\$137,120,735	64.7
Mutual Companies*	39,099,998	20.0	38,572,881	18.2
Monopolistic Funds	21,335,416	12.4	21,292,828	10.1
Competitive Funds	12,983,309	6.6	14,904,543	7.0
	\$196,206,771	100.0	\$211,890,987	100.0

*Data supplied by A. M. Best Company

variance in the extent of business transacted by the different competitive funds.

specified by law, the cost of paying them should be the same regardless of the type of carrier. The only saving

COMPARISON OF PREMIUM INCOME FOR 1925 STATE FUNDS AND PRIVATE COMPANIES

	Premiums Received			Per cent of Total Received	
	State Funds	Private Carriers	Total	State Funds	Private Carriers
California	\$ 5,811,317	\$13,503,463	\$19,314,780	30.1	69.9
Colorado	554,869	1,385,105	1,939,974	28.6	71.4
Idaho	278,610	468,016	746,626	37.3	62.7
Maryland	297,952	2,716,833	3,014,785	9.9	90.1
Michigan	520,918	7,519,370	8,040,488	6.5	93.5
Montana	253,055	176,173	429,228	59.0	41.0
New York	4,246,429	48,140,650	52,387,079	8.1	91.9
Pennsylvania	2,661,203	12,151,552	14,812,755	18.0	82.0
Utah	280,190	697,455	977,645	28.7	71.3
	\$14,904,543	\$86,758,817	\$101,663,360	14.7	85.3

The California, Colorado, Idaho, Montana and Utah funds have a monopoly of insurance on public employments and contracts on public works. This accounts in part for the very much higher percentages they show.

One of the principal arguments advanced in support of state compensation funds is the lower cost of operation. Inasmuch as the scale of benefits to which injured workmen are entitled is

therefore would arise from a lower expense of operation. The ratio of administrative expenses to premiums written was 5.6 per cent for monopolistic funds in 1925 as compared with approximately 4 per cent for the same carriers in 1920. For competitive funds the ratio was 15.9 per cent in 1925 which is a very material increase over the 10.6 per cent ratio for 1920. These percentages are based upon actual expenditures and do not take

into consideration the fact that monopolistic fund figures ordinarily include all expenses incident to the administration of the compensation law and neither set of figures includes allowance for office space, supplies, legal services, etc., furnished to the fund in many states without being charged against its expense account. Only California and Utah pay state premium taxes, the rate being 2.6 per cent in the former and 1.5 per cent in the latter jurisdiction. In order to make an accurate comparison of costs with private companies, an adjustment should be made for all these factors. If such were made, there is every reason to believe the average expense ratio for competitive state funds has so increased in late years as now substantially to approximate that for mutuals.

It would be misleading to present comparative expense ratios without some reference to the types of services performed by the different carriers. One of the most glaring deficiencies, from the standpoint of service, has been the entire lack of safety activities in the monopolistic funds until recent years and the disregard of such service by all except a few of the larger competitive funds. The Washington monopolistic fund is now carrying on a consistent program of accident prevention work and the Ohio fund has recently initiated similar activities under a constitutional amendment (1923) and enabling act (1925) which permit one per cent of the premium income received from employers to be used for this purpose. Aside from California, New York and Pennsylvania, little or no service of this nature is rendered by competitive funds. Some of the funds have no merit rating plans whatever while a number of others allow only an experience rate. As a whole it may safely be said that the maximum efforts are not being

exerted to use merit rating as a means of reducing accidents, in spite of the emphasis being placed upon this by private companies.

One reason for the lack of service in many funds is the budgetary limit which is placed upon their expenditures. This restriction is reflected not alone in the curtailment of activities designed to prevent loss, which activities are fundamental to any well-rounded plan of insurance, but also in the inability of the management in some states to audit payrolls properly and thus be sure that each employer is paying his just premium. Managing officials of certain funds further contend the limitation on their expenses makes it impossible for them to secure and maintain high grade employees and to conduct necessary home-office operations as efficiently and pay claims as expeditiously as possible. Some likewise assert that this is a very material handicap in their efforts to secure business. Though legislators may be cognizant of the short-comings enumerated, little effort appears to have been exerted to remedy the situation.

TEACHERS' PENSIONS

Arizona, Nevada and Rhode Island have in force laws which grant pensions on retirement to teachers in public schools who have met certain requirements as to age and length of service. These are non-contributory. A number of states have never provided any pensions for school teachers, although they permit cities of a certain size within their boundaries to establish and operate local retirement systems. Nineteen,⁴ however, have created funds having a state-wide application (in a

⁴ California, Connecticut, Illinois, Indiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Vermont, Virginia, Washington and Wisconsin.

number of cases, large cities in the state have their own funds and do not come under the state plan) to which teachers, the state and in some instances local school districts contribute. These may either be optional or compulsory. From the standpoint of financial stability they may be divided into two groups.

Actuarial.—When this plan is followed teachers ordinarily contribute four or five per cent of their salaries, which sums are accumulated with interest in separate accounts for each member in the same manner as savings deposits. At time of retirement, the accumulated contributions, including interest, are used to purchase an annuity of such amount as they will buy according to a certain mortality table and a given rate of interest. Provision is generally made for withdrawal of savings in event of dismissal or resignation and for their payment to beneficiaries in case of death and to the member in event of disability.

The state usually offers to match the annuity provided by the teacher with a pension of like amount. Since teachers with records of service prior to the enactment of the law might only receive a very small retirement income under this plan if they have but a few years yet to teach, the state may grant an additional pension for the prior service. An annual appropriation is customarily allowed for establishing a reserve to meet current pension liabilities, but the accrued liabilities for prior service are so large that most states cannot afford to appropriate at one time an amount sufficient to take care of them, so the cost is spread over a number of years.

Cash Disbursements.—Teachers in a number of states make nominal contributions to the state retirement fund, such as \$1 a month, which even with interest would be insufficient to pro-

vide much of an annuity at the end of their teaching service. No individual accounts are kept and the teacher has but a limited privilege of withdrawal, if any. The retirement salary is generally a fraction of the teacher's average salary for the five years preceding retirement, with minimum and maximum limitations. Pensions are paid from the teachers' contributions and public appropriations but the experience of states having such funds has been that the cost increases very rapidly and the accrued liabilities soon become enormous.

In the past decade, the income of contributory state teachers' pension funds has grown tremendously until in 1925 the aggregate exceeded \$31,500,000. The size of some of these funds is evidence not alone of the important rôle which they play in the economic affairs of teachers, but should be a warning to state officials of the necessity for making certain at once that they are on a safe financial basis. The tendency unquestionably lies in that direction and the more recent laws are on the whole sound in principle. Furthermore, a number of states, as Indiana, New Jersey, New York and Wisconsin, have in late years materially revised their former laws in order to place them upon a firmer foundation.

Other states have either failed to recognize the condition of their funds or legislatures have done nothing to remedy it. Officials of four frankly admit their funds are actuarially unsound or in a very weak position. In the case of California, for example, on November 30, 1924, the present value of annuities already entered upon was \$4,246,950 and of probable annuities to be granted teachers then in actual service \$46,211,940. As against these total liabilities amounting to \$50,458,890, the assets on hand plus the present value of all probable future

income, including that from the inheritance tax as well as teachers' contributions, amounted to \$17,610,437. On this basis, the deficit as of that date was \$32,848,453. It is estimated the Minnesota fund has now about \$1,000,000 of assets and \$10,000,000 of liabilities. If the experience of these funds does nothing else, it should at least emphasize the importance of making a careful study and employing a competent actuary before enacting a law, in order that there may be no question later as to the ability of the fund to pay pensions on which aged teachers are relying for support during their declining years.

STATE EMPLOYEES' PENSIONS

Although Connecticut and Maine pay straight pensions to retired state employes, only four states, so far as the writer has been able to ascertain—Massachusetts, New Jersey, New York and Pennsylvania—have contributory systems. All of these maintain individual accounts for each member's contributions. Annual appropriations are made in the last three states to meet accrued and accruing liabilities, but Massachusetts pays its portion of the pension costs only when incurred. Provisions as to withdrawal, death, disability and for taking care of service prior to the enactment of the law resemble very closely those discussed for teachers' pensions. With the exception of the Massachusetts fund, all others are of comparatively late origin. Their authors have apparently profited by the mistakes made in many of the teachers' funds, although it may be noted that New York still has a separate retirement system for state hospital employes, which system is in bad financial condition. Efforts are being made to bring this under the general state employes' retirement system.

Receipts from employes' contributions and state appropriations of the Massachusetts, New Jersey and New York funds during the year 1925 were \$4,616,538.

HAIL

Among those states whose crops are particularly susceptible to damage by hail, five—Montana, Nebraska, North Dakota, Oklahoma and South Dakota—have created funds to supply protection against this hazard. The Oklahoma law has subsequently been repealed. Present funds are of two types.

Automatic.—All cropped land is automatically covered in North and South Dakota unless specifically exempted. A hail indemnity tax is assessed against the owner or tenant in the same manner as other taxes. North Dakota also levies for the benefit of its hail fund a one cent flat acreage tax on all tillable land whether or not insured by the state.

Optional.—In two states farmers may obtain coverage against hail by applying to the county assessor. When thus covered in Montana, the hail levy is included with other taxes against the land and collected in the same manner. Nebraska requires the premium for hail insurance to be paid in cash or by bank order.

State hail insurance funds did not write any substantial amount of business until 1919. During that year, however, their income from assessments and levies represented 19.4 per cent of all premiums received by hail insurance carriers operating in this country. An idea of the changes which have subsequently come about in their relative importance as compared with private companies may best be obtained from the following table:

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PREMIUM RECEIPTS—HAIL INSURANCE
(in thousands)

Years	Stock and Mutual Companies*	State Funds	Total	State Fund Per cent of Total
1919	24,235	5,861	30,096	19.4
1920	19,588	5,864	25,452	23.2
1921	15,646	7,306	22,952	31.8
1922	12,693	6,256	18,949	33.0
1923	13,812	5,464	19,276	28.3
1924	10,411	4,471	14,882	30.0
1925	16,404	2,688	19,092	14.1

* Data supplied by National Underwriter

The automatic funds of North and South Dakota received more than ninety per cent of the total levies and assessments paid to all state hail funds during the above seven years. While their annual income has suffered a very material reduction, particularly in 1925, that of the optional funds has dwindled much more rapidly. The maximum receipts of all optional funds combined exceeded \$900,000 in 1920, but were barely more than \$100,000 in 1925.

Although the cost per acre has generally been lower than that charged by private companies, the variance in the levy from year to year when the rate is not fixed in advance, the possibility of extra assessments, the unscientific zoning and rating systems used until recently by certain funds, the occasional pro-rating of losses and frequent delays in their payment, and the lack of adequate catastrophe reserves and re-insurance have unquestionably created dissatisfaction with state administration of this type of coverage. All reduction in premium income cannot be attributed to these factors alone perhaps, since the general deflation of farm values and a more widespread knowledge by farmers of the manner in which they can exempt themselves from the operation of automatic laws have undoubtedly

exerted an influence. In 1925, North Dakota adopted a zoning system and South Dakota revised the one in operation there. An effort is now being made in Montana to incorporate the automatic feature in its legislation.

BANK GUARANTY

The purpose of these funds is to protect depositors in state banks against loss which might be occasioned by the bank's insolvency.

Compulsory.—Mississippi, Nebraska, North Dakota, Oklahoma and South Dakota have made the protection of deposits in this manner compulsory, though the law in Oklahoma has since been repealed. Texas banks must either be protected under the guaranty system or file a bond for the security of deposits.

The maximum rate of assessment was set at one fourth of one per cent of the average daily deposits in Mississippi, North Dakota and South Dakota, and one fifth of one per cent in Oklahoma. The limits in Nebraska and Texas, however, were higher since Nebraska allowed an extra assessment of one half of one per cent (one per cent until 1923) in addition to its regular one tenth of one per cent regular assessment. In Texas, the regular assessment was placed at one fourth of one per cent and the maximum at two per cent.

Since the assessment privilege was so limited in the first four states named and adequate provision had not been made beforehand for unusual losses, these funds found themselves unable to weather the storm of the deflation period. As a result, Oklahoma was obliged to repeal its law at a time when it had \$1,336,000 of Banking Board Warrants outstanding and owed depositors of insolvent banks about \$6,000,000. The latter amount has since been reduced by the liquidation of these banks, but the state bank commissioner thinks "it is not likely now that any of the Banking Board Warrants or any of the (remaining) amount due to depositors under the provisions of that law will ever be paid." The Mississippi, North Dakota and South Dakota funds now have outstanding liabilities approximating \$43,000,000 with assets of about \$640,000 and a possible annual income of \$680,000.

It is contended the Nebraska fund is the only one which has achieved success, but opponents claim it would be insolvent if obliged to pay losses on the thirty-seven banks now being operated by the Commission. Even assuming that body is able to put most of these banks back on their feet without loss, it is evident it would not have been able to meet all liabilities except for the special assessment privilege. The payment of the heavy maximum assessments in Texas has been a very severe drain upon the bankers of that state as a result of which state banks are rapidly leaving the guaranty fund and availing themselves of the bond security plan made possible under an act of 1925. An attempt by the South Dakota legislature in 1925 to repeal its guaranty law was repudiated by the voters at a referendum in November, 1926, by being made a political issue.

Optional.—Membership is optional

in Kansas, but under a recent state supreme court decision certain penalties are attached to withdrawing from the fund when all liabilities to depositors of failed banks have not been met by the fund. On August 20, 1925, it was estimated that \$4,500,000 in guaranty fund certificates were outstanding with less than \$18,000 in the fund to meet them. The approximate amount which can be realized from assessments each year is about \$350,000. Washington likewise has an optional system but all member banks have exercised their right to withdraw from it.

INSURANCE ON STATE PROPERTY

Provision for payment of losses on state property occasioned by fire, tornado, and in certain cases other hazards, has been made in some states by the creation of funds. These are of two types.

Emergency Reserve Appropriation.—A given amount may be appropriated which shall be used for replacing destroyed property. This may be an outright annual appropriation designed to build up in course of time a fund of substantial size but without any particular reference to the value of the property at risk. In Oregon, for example, \$25,000 was to be set aside on July 1, 1925 and July 1, 1926, and thereafter the sum of \$50,000 on July first of each year until \$300,000 shall have been accumulated. The first payment under this provision was immediately wiped out by a \$25,700 loss at the Oregon Agricultural College. Colorado provides for an annual appropriation of \$40,000 beginning with the fiscal year 1926 and limits the total that may be accumulated in the fund to \$250,000.

On the other hand, the appropriation may be intended to pay only for losses which take place during the period for which appropriations are budgeted.

Any amount not used reverts and a separate appropriation must again be made by the following legislature. Iowa sets aside \$100,000 every biennium and South Dakota \$150,000 annually under such laws. For the ten-year period ending June 30, 1924, the biennial losses in Iowa ranged between \$3,365 and \$267,561. The lowest annual loss in South Dakota since the enactment of the law in 1919 was \$317 and the highest \$39,346. New Jersey and Vermont are making annual appropriations for the purpose of establishing substantial reserve funds, but in the meantime are covering their property with private companies.

Funds established in the manner described may not strictly be regarded as affording insurance protection. Their purpose is to permit the restoration or replacement of destroyed property without the necessity of waiting for another session of the legislature rather than to distribute the loss in accordance with recognized insurance principles.

Self-Insurance.—Alabama, Florida, Michigan, Minnesota, North Dakota, South Carolina and Wisconsin have created self-insurance funds which charge definite premiums, usually based on old-line company rates, set up reserves and in general function as regular insurance carriers. Re-insurance is frequently carried on large or extra-hazardous risks. The Michigan and Minnesota funds have become exhausted within recent years owing to failure the part of the state to appropriate premiums. The premium income of the other five totaled \$869,559 in 1925. Because these funds are limited to coverage on public property—that belonging to the state and in some cases counties, municipalities and school districts—there seems to be small prospect of much growth.

LIFE

Savings banks in Massachusetts may organize insurance departments under certain regulations. These departments are not only closely supervised by the state but are furnished with all necessary supplies, as well as the services of an actuary, a state medical director and instructors who explain the system to employees in industry and write insurance. The state further exercises general administrative control. While there is no legal liability on the part of the state and no fund other than a general insurance guaranty fund which is in the nature of a catastrophe reserve, this system is so closely allied with the state as to be frequently regarded in the nature of state insurance.

Although the banks are enabled to offer standard contracts at a lower net cost than old-line companies, since the state bears a portion of their expenses and they pay no commissions to agents, the aggregate premium received by them in 1925 was only one per cent of the total collected by all types of life insurance carriers in the state. The missionary work performed by agents of old-line companies has probably been responsible in good measure for the amount of growth attained. Because life insurance is "sold and not bought" a very marked progress in the savings bank system is hardly probable.

Wisconsin operates a fund of small size which issues standard forms of life insurance policies. Fewer than 900 contracts are in force and the premium income is but a negligible fraction of that received by private companies in the state. No serious effort is being exerted to secure new business.

PUBLIC DEPOSIT GUARANTY

All interest collected by the state of Iowa or its political subdivisions on

public funds may be diverted and used for the purpose of paying losses on public funds resulting from the failure of banks in which they were deposited. On August 1, 1926 (the end of the first year's operations), this fund had liabilities on approved unpaid claims totaling \$700,000 beside a large amount of undetermined liabilities. All income available by the terms of the law had been used to pay losses, so there were no assets. In Wisconsin a special fund is being set up, under a recent law, consisting of one half of one per cent of the principal of public deposits. This will take the place of the former requirement as to the furnishing of depository bonds and is intended to pay for losses on public funds in closed banks. No information is available as to its operations.

BONDING

All bonds required in North Dakota or South Dakota to be filed by officers of the state or its political subdivisions are written by state funds created for that purpose. These laws are automatic in character and prohibit the use of public monies to pay for personal or corporate surety bonds. The funds are small in size and limited in their possible development because they cover only public employees. The combined premium income in 1924 was approximately \$45,000.

TORRENS TITLE

In connection with the operation of the Torrens title registration laws, insurance or indemnity funds have been provided for in eighteen states. One writer⁵ claims, "as an insurance scheme, the Torrens laws are to say the

⁵ *The State Insurance of Land Titles in the United States*, Dr. E. L. McKenna.

least, extremely undeveloped and open to many objections." Many of the funds are now practically inoperative.

CONCLUSION

The record of state insurance as a whole has not been inspiring. Some funds have been exceptionally well managed and point with pride to their achievements. Others have hopelessly failed. The downfall of the latter may be attributed to a narrowly restricted field of operation or a sacrifice from the outset of basic underwriting principles in the interest of lower cost. In many cases, due regard has not been paid to the proper distribution of risk, the collection of adequate premiums, the reinsurance of excess lines and the creation of reserves for unusual losses. Loss prevention activities, which progressive underwriters recognize as essential to any constructive insurance plan, and other collateral services have been neglected or materially limited. If all funds are grouped together, the question may well be raised as to whether the savings claimed for them have warranted the foregoing of benefits from these other factors. The tendency in recent years to adopt practices which old-line companies have proved by long experience to be sound is encouraging, but improvements in service and security can be brought about only by increasing the expenses of operation. This would tend, however, to minimize the importance of the reason advanced for the existence of certain funds and recognition of its effect should serve to make legislators hesitate before engaging the state in a type of business which private companies have already demonstrated their ability to handle.

Insurance Instruction in American Universities and Colleges

By S. S. HUEBNER, Ph.D.

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ONE of the most impressive developments connected with insurance, particularly during the last ten years, is the rapid recognition of the subject by our higher institutions of learning as an integral part of their curriculum. This tendency is fully justified by every educational consideration—the vital social importance of the subject, promotion of the individual's economic welfare, magnitude of the business, general educational bearing upon other economic subjects, and mental disciplinary and utility value to the student.

Insurance has become a business of tremendous proportions in the United States, with an annual premium income of about six billion dollars, and with assets equal to about one dollar out of every twenty-five dollars of the nation's total wealth. It is concerned with the elimination of risk from our economic affairs, and constitutes one of the fundamental divisions of economics, just like production, distribution and consumption. The fundamental purpose of insurance is to protect against—and where a loss has occurred to indemnify—the loss of life and property values. With respect to both types of values, insurance also comprises the vast field of loss prevention in the first instance.

Life insurance capitalizes human life values, by far the greatest economic value in every community, in the interest of family, business and society. It deals with the financial appraisal, organization, management and liquidation of the monetary worth of human

life values, and represents the application to such values of the same fundamental economic principles as are now so generally taught in our institutions of learning and so commonly practiced as a matter of course with respect to property values. It also bears a vital relation to thrift and investment, to the creation of sinking-funds to meet future family and business obligations dependent upon the continuance of life, to the creation, protection and settlement of estates, and to educational and philanthropic bequests. Property insurance, on the contrary, protects against the loss of property values through the many types of hazards that exist, and serves to investigate the nature and significance of the causes of loss, to formulate ways for their elimination, and to distribute the "risk bearing" equitably and conveniently among individuals, types of business, and communities. Moreover, all forms of insurance serve as a basis of credit and as a means of eliminating, in business affairs, the paralyzing effects of worry and fear. All economic enterprises—family, business, or vocational—involving property values, human life values in the form of current earning capacity, or skilled managers or employees, are obliged at all times, if proper organization is wanted and credit desired, to use practically all the leading lines of insurance.

Magnitude and vital bearing upon social and individual welfare, however, are not the only considerations that should prompt incorporation of the subject of insurance into our educa-

tional system. Insurance also bears a direct and vital relation to other applied economic subjects that have long enjoyed a prominent place in the curriculum of the business schools of our universities and colleges, such as corporation finance, investments, industrial organization and management, commercial credit, wills and trusts, and taxation. All of these subjects are intimately concerned with life insurance, and most of them also with property insurance, and specialization in the study of these applied subjects involves a knowledge of the services, principles and practices of insurance just as truly as it does of the other basic subjects now so generally required as a preliminary to specialization in any of the applied business fields. Moreover, as a collegiate subject of study, insurance combines the virtues of mental discipline, a proper sense of the seriousness of life, a proper concept of community service, and information really useful in living, quite as much as other subjects now comprising the collegiate curriculum, and in many instances much more so.

RAPIDITY OF THE DEVELOPMENT

In 1925, Professor Ralph H. Blanchard, of Columbia University, made a canvass of 210 American higher institutions of learning with a view to determining the number that were offering courses of instruction in insurance. His summary showed that ninety-three institutions offered such courses at the time of his inquiry. Of this number, fifty institutions offered only one general course that related to the several leading lines of insurance, thirty-two offered specialized courses only, and eleven both general and special.

For the preparation of this article, the author sent a detailed questionnaire to the ninety-three institutions men-

tioned by Professor Blanchard, as well as to others that were subsequently reported as having started instruction in insurance. Seventy-seven institutions have made returns thus far, and this number, it should be noted, embraces nearly all the leading universities and colleges of the country. Sixty-four, or all but thirteen of the institutions that responded, were able to report the year when organized instruction in insurance was first offered. The very beginning, aside from the presentation of the subject along strictly legal or actuarial lines, seems to date back to the academic years 1903-04 and 1904-05 when eight institutions commenced giving instruction in insurance in some form. Following this beginning, very little progress seems to have been made for the next ten years, only one other institution having been added prior to 1910 (namely, in 1906) and only six more before 1915, namely, two in 1911, three in 1912, and one in 1914. Beginning with 1915, however, the adoption of courses proceeded at a much more rapid pace. In that year, five more institutions were added to the total, and then followed 1916 with four more, 1918 with two, 1919 with seven, 1920 with nine, 1921 with five, 1922 and 1923 with three each, 1924 with six, 1925 with three and 1926 with two. Instruction in insurance along economic and operating lines may thus be said, as far as American universities and colleges are concerned, to have had its beginnings less than a quarter of a century ago, and to have experienced its main growth within the last decade. Its recentness is indicated by the fact that thirty-one of the sixty-four institutions reporting, or nearly one-half, commenced their insurance instruction in 1920 or thereafter; that thirty-eight, or nearly sixty per cent, started after 1918; forty-nine, or three-fourths of the total, after 1915; and fifty-five, in the

as well as eighty-six per cent of the total, frequently following 1910.

IMPROVEMENT IN COURSES OF STUDY

The rapid adoption of insurance courses has been accompanied by a marked expansion in the comprehensiveness of the instruction given. Here again, it should be noted that the seventy-seven institutions that replied to the detailed questionnaire embrace nearly all universities and colleges that conduct schools or departments of business and that are thus most likely to have given thought to the inclusion of insurance into their course of study. The present study is therefore believed to be sufficiently comprehensive and representative to give a fair composite picture of the existing situation.

Although eight institutions offered instruction in insurance as early as 1903-05, that instruction was very general in character, and with but one or two exceptions did not relate to all the important types of insurance to be covered. In most instances the subject was not even presented in a separate course, but was given in conjunction with some other subject like economics, finance or banking, and usually by teachers whose interest and training lay primarily in those other subjects and who added insurance largely from an experimental standpoint. Moreover, in the absence of adequate texts the instruction was largely in the nature of lectures on a selected series of subjects instead of a comprehensive and well-correlated course of study. Between 1911 and 1915, however, fairly comprehensive text-books on life and property insurance first made their appearance, and from that time on the introduction of separate and well-rounded courses in these two major types of underwrit-

ing became easier and much more convenient.

The extent to which separate courses are now given is clearly indicated by the returns of the seventy-seven institutions to the aforementioned questionnaire. Seventy-one report that the subject of insurance is offered in the form of a separate course, or courses. In only six instances is the material offered in conjunction with some other subject, five reporting that the work, although definitely arranged, is given in connection with their courses in economics, and one stating that the work is limited to life insurance only and is being presented in two courses on the "Mathematics of Finance" and the "Mathematics of Life Insurance." All except four of the seventy-one institutions that give separate courses report that the instruction covers the three major types of underwriting, namely, life, property and casualty insurance. Of the four exceptions, three institutions give a separate course in life insurance only, and one confines itself to casualty insurance. Where only one course is given, and this is the case with one-half of all the institutions reporting, the emphasis is usually half on life insurance and half on property and casualty insurance, with the principal emphasis on the property insurance. Moreover, in most instances the course extends over one semester, with an average of three class sessions per week.

Thirty-nine, or fifty-six per cent of the institutions reporting separate insurance courses, have seen fit to specialize with separate courses in each of at least two of the three major types of underwriting, thus marking another distinct advance. A number of other institutions indicate their intention to do the same in the near future. All of the thirty-nine institutions except one give separate courses in life insurance;

thirty-five, or all except four, separate courses in property insurance; nine give separate courses in casualty insurance; and eight, courses in actuarial science. In about three-fourths of the instances the course extends over one semester with two class sessions per week in about half of the cases, and from three to five class sessions in the remaining half. In about one-fourth of the institutions, the special courses extend throughout the academic year, i.e. to the extent of at least two semesters. In about half of these instances, these institutions, usually ranking among the leading universities of the country, have seen fit to offer an additional course in each of the fields of life and property insurance for those who have completed the introductory work pertaining to these subjects.

Another matter of great importance educationally should be noted, namely, the extent to which instruction in insurance is required as an integral part of a business education. Nine universities and colleges, including Chicago University, Penn State College, the University of Pennsylvania, the University of Missouri, and Grinnell College, require a course in the principles of insurance to be taken by their students in business. Syracuse University reports that, while the step has not yet been taken, it is the intention to require such a course of all students in business administration in the near future. Howard University and the universities of Kansas and Montana report that, while the course is not absolutely mandatory, it is strongly recommended to all their students in business administration. Four universities, namely, Syracuse and Miami universities and the universities of Kansas and Oregon, report that a course in insurance is required of all students majoring in financial subjects.

FUTURE DEVELOPMENTS

Despite the phenomenal growth of education in insurance during the last ten years, and particularly during the last five or six years, much still remains to be accomplished. The tendencies are started it is true, but the real momentum, for the greatest social good, remains to be developed. From this standpoint, the following four developments, aside from the introduction of the subject into more institutions of learning, would seem to be most urgent:

(1) The further extension of the idea that a course in insurance, to the extent of at least one semester, be required of or strongly recommended to all students seeking a business education. It should also be strongly recommended to students in sociology and in education, particularly along the line of life insurance. A course in insurance is just as fundamental to personal and social well-being as most of the other basic courses now required in our schools of business. The subject reaches into the future life of every graduate who leaves a school of business, and it reaches vitally. Life insurance is a universal service along many lines required by every family and business head, be he poor or rich. Every person whose life has a value needs life insurance. Likewise, every possessor of property values needs the service of property insurance to improve his credit, to safeguard himself against unnecessary loss, and to free his mind from the inefficiency inevitably connected with the worry and fear associated with uncertainty in human economic endeavors. The suggestion is further justified when it is remembered that the subject of insurance has a general and vital bearing upon other economic subjects in the collegiate curriculum, and that it also lends

itself admirably to the development of the reasoning power of the student, and to the inculcation of the concept of service to family and community.

(2) Greater emphasis, in the general course for all students, upon the economic services of insurance as contrasted with over-emphasis of the mathematical principles and operating practices. The latter may well be left for detailed treatment in the more specialized courses intended for those who are looking forward to the adoption of insurance as a career. There should be just enough of the technical aspects in the general course to make the reserve system in insurance clearly understood and to cover the essential terms of the contract. In ever so many instances, owing to the natural proclivity of the instructor, the highly technical aspects of the business, and particularly the mathematical, are made to overshadow the vital service phases of insurance concerning which students of business and the public generally should be informed to have a clear understanding of the far-reaching and manifold usefulness of insurance to the family, to business, and to the insured's personal welfare. In life insurance the emphasis should be primarily upon the ideas of life value appraisal, capitalization of that value, indemnity against the loss of current earning power, depreciation of the life value through disability or old age, the use of sinking-funds, the establishment and maintenance of credit, the accumulation of emergency funds, the creation of a personal estate through sound investment, the conservation of the human life value through periodic medical examinations, and the use of life income plans and other trust arrangements. In the field of property insurance the emphasis should likewise be on the services rendered to business by way of indemnity for loss, the crea-

tion and improvement of credit, the prevention of loss in the first instance, and such other services as will be of real usefulness to the layman in his later daily life. Irrespective of the type of insurance under consideration, attention should also be given to the various forms of coverages available and their respective advantages and disadvantages under varying circumstances, and to the various types of contracts in use and the meaning of their provisions and the significance of their purpose.

(3) The development of a specialized literature intended to bring insurance, and particularly life insurance, into proper relation with the numerous applied economic subjects upon which it has so vital a bearing. Thus in life insurance there should be prepared a series of books, each treating of life insurance in its specific relationship to some one of the important departmental divisions of economic and social science, *i.e.* one on the economics of life insurance; another on the relations of life insurance to saving, investment and credit; another on its relations to wills, trusts and the settlement of estates; another on the relations of life insurance to taxation; another on the sociological aspects of life insurance; and another on its relations to the financing of education and philanthropy. Similarly, in the field of property insurance a specialized literature is needed, in the form of separate volumes, to explain the relations of that branch of insurance to credit, to the prevention of loss in the first instance, and to the protection of profits and unavoidable overhead and fixed charges in the event of business interruption.

Such a specialized literature, now greatly wanting, will offer a threefold advantage. In the first place it will tend to bring the subject of insurance increasingly to the thousands upon

thousands of graduates who leave our schools of economics and business annually to go back to their respective communities to be leaders as teachers, editors, lawyers, bankers, salesmen, business men, etc. Business education in our universities and colleges is customarily organized on the basis of departments or groups of studies and students select the same for their specialty. As already stated, the great majority of insurance courses are elective, and students in other departments therefore often have little opportunity to get into contact with the subject of insurance. Or if the opportunity exists, they receive little or no guidance from their advisors who are usually unacquainted with the subject themselves, largely because text books in the several fields of applied economic science were written by authors unacquainted with the far-reaching economic services of insurance. The pitiable result therefore is that as yet the great majority of students pass through our collegiate business schools without ever being introduced to the subject of insurance, except possibly in a very perfunctory manner.

With a specialized insurance literature, directly related to the aforementioned departmental subjects, it seems reasonable that both teachers and students in the given specialty will have occasion to use the same and thus have their vision of insurance enlarged. In time the services of insurance will also be reflected in the text-books that relate to economics, corporation finance, commercial credit, investments, taxation, sociology, etc. Our text-books are written mainly by those who graduate from institutions of higher learning, and when they become familiar with life and property insurance as related to their particular field—be it economics, finance, credit,

taxation, sociology or education—may rest assured that future text-books will have insurance incorporated within their pages to a much greater extent than is now the case. Moreover, such a specialized literature will serve greatly to develop an adequate number of teachers of insurance. That is one of our greatest problems—the dearth of competent teachers to take charge of the numerous insurance courses that are being started. In fact, many universities and colleges refrained from installing a course for years, and some offer this as the reason for the absence of the subject today, because they had no one available as teacher. That has also been the story with respect to the introduction of other applied business courses, and can only be overcome in the course of time. Insurance being one of the latest arrivals among business subjects in universities and colleges, the problem seems more acute than in most other subjects. But it is not essentially different in nature, since its companion subjects were obliged to face the same problem in their day. The solution is clear: Teachers of insurance can be derived in sufficient numbers only from the great body of our college graduates who have had the benefit of insurance instruction somewhere in their four years of collegiate study.

(4) The extension of instruction in the economics of insurance to the high schools. This is very important from the social and personal utility standpoints, because probably not more than one high school graduate out of ten ever enters college, and probably not more than one out of every thirty or forty enters a collegiate school of business. Insurance is fully as worthy of being introduced into the school system below collegiate grade as are most of the other commercial and financial subjects that now

find a place in the high school curriculum. But that will never happen on any large and permanent scale unless it comes from the top down. All great educational ideas percolate downward from the top, and as a general proposition it is the higher institution of learning that is the original sponsor. And from there, through the develop-

ment of teachers and text-book equipment, the subject gradually finds its way down, layer by layer, until the masses receive the benefit of the instruction that they ought to have. What an incentive, therefore, to effect an adequate and permanent establishment of insurance education in our higher institutions of learning.

Report of the Board of Directors of the American Academy of Political and Social Science for the Year Ending

December 31, 1926

1. REVIEW OF THE ACADEMY'S ACTIVITIES

WITH each year, the Academy demonstrates more fully the statesmanlike vision of the founder of the Academy, Edmund J. James, in establishing a national organization, free from all partisan affiliations to devote itself exclusively to the study and discussion of the great economic, social and political problems confronting the country. The membership of the Academy, distributed throughout the country, is made up of men and women who, in their respective communities, wield a real influence in the formation of an enlightened public opinion. The calendar year, which has just come to a close, has witnessed a gratifying strengthening of the Academy's influence through the meetings that have been held, and especially the splendid series of volumes, published under the Academy's direction.

The Annual Meeting, held in May last, was devoted to "The United States in Relation to the European Situation." It has now become the established practice of the Academy to devote the six sessions of the Annual Meeting to a discussion of some aspect of the international situation with special reference to the foreign policy of the United States. In a very real sense, the Annual Meeting has now assumed the character of a national conference, and with each year a larger number of the Academy members from remote sections attend these sessions. Furthermore, delegates are appointed by Governors of States, and by the national commercial and civic organizations, which adds greatly to the influence of the Annual Meeting. This influence is further strengthened by the publication of the proceedings in a special volume.

II. MEETINGS

In addition to the Annual Meeting the Academy held the following conferences:

February 20, 1926: Modern Crime—Its Prevention and Punishment (three sessions).

Saturday morning. Modern Tendencies in Crime.

Saturday afternoon. Some Factors in the Prevention and Punishment of Crime.

Saturday evening. The Detection and Prevention of Modern Crime.

October 29 and 30, 1926: Federal Versus State Jurisdiction in American Life (six sessions).

Friday morning. Federal and State Sources of Revenue.

Friday afternoon. Child Labor and the Federal Government.

Friday evening. Some Phases of State and Federal Control.

Saturday morning. Extension of Federal Influence in Education.

Saturday afternoon. Power Development and Its Supervision.

Saturday evening. Corporation Control by the Federal Government.

The complete proceedings of these conferences have been published in special volumes.

In addition to these national conferences the Academy held the following special session: December 17th—The Future of International Economic Relations.

Important as our meetings are, it must be said that the major influence of the Academy is exerted through its publications. Every member of the Academy is under a debt of obligation to the Chairman of the Editorial Council, Dr. Clyde L. King, upon whom the major responsibility for the publications of the Academy falls. We are likewise deeply indebted to the editors of special volumes, whose co-operation has been secured by Dr. King, resulting in the excellent volumes published during the year, the titles of which are set forth in the section of publications.

Members of the Academy will recall that there has been established what is known as the Simon Nelson Patten Fellowship Fund in honor of the late Professor Simon Nelson Patten, who for so many years was a distinguished member of the Board of Directors. During the year just closed the Academy appointed Dr. Wilbur C. Plummer, of the Department of Economics of the University of Pennsylvania, as a special Research Fellow under this fund. Dr. Plummer has prepared and presented a report on "The Social and Economic Consequences of Buying on the Instalment Plan." This valuable study of one of the most important of our current problems appears as a supplement to the January issue of *The Annals*, and has by this time doubtless been received by all the members. It is a valuable contribution to current economic literature. Other Special Fellows will be appointed from time to time.

III. PUBLICATIONS

During the Year 1926 the Academy published the following special volumes:

Industrial Safety (January)

Legal Aid Work (March).

Modern Crime—Its Prevention and Punishment (May).

The United States in Relation to the European Situation (July).

Markets of the United States (September).

Thirty-Fifth Anniversary Index (September Supplement).

The Motion Picture in Its Social and Economic Aspects (November).

IV. MEMBERSHIP

During the year 1926 the Academy received 1259 new members and 141 new subscriptions, or a total of 1400. The Academy lost 85 members by death, 642 by resignation and 197 delinquent members were dropped. There were 91 subscriptions taken from the roll—66 by resignation and 25 delinquents dropped. The present membership of the Academy is 7912 members and 1693 subscriptions, making a total of 9605.

V. FINANCIAL CONDITION

The receipts and expenditures of the Academy for the fiscal year just ended are

clearly set forth in the Treasurer's report. The accounts were submitted to E. P. Moxey Company for audit, and a copy of their statement is appended herewith. In order to lighten the expenses incident to the Annual Meeting and other Conferences held during the year, special funds were raised amounting to \$4316. The Board desires to take this opportunity to express its gratitude to the contributors to these funds.

VI. CONCLUSION

Your Board desires again to avail itself of this Annual Business Meeting to emphasize the desirability of establishing permanent headquarters in the form of an Academy Building, and of securing an Endowment Fund which will enable the Academy to establish research fellowships and otherwise promote the investigation of economic, social and political problems. Owing to the increasing demand for space in the buildings of the University of Pennsylvania, the University authorities have found it necessary to request the Academy to vacate the quarters, the use of which the Academy has enjoyed until the close of the present year. We have rented 3622-24 Locust Street, Philadelphia, but your Board will not feel satisfied until the Academy is in possession of its own building for the administrative offices and for the holding of Academy sessions.

In conclusion, your Board desires to impress every member of the Academy that we are a great national co-operative organization, the success of whose work depends upon the active interest and support of our members. We therefore earnestly hope during the year 1927 to have the benefit of the active interest and support of every member of the Academy.

EDWARD P. MOXEY & Co.

Real Estate Trust Building, Philadelphia

January 11, 1927.

CHARLES J. RHOADS, Esq., *Treasurer*,

American Academy of Political and Social Science Philadelphia, Penn.

Dear Sir:

We herewith report that we have audited the books and accounts of the American

Academy of Political and Social Science for its fiscal year ended December 31, 1926.

We have prepared and submit herewith Statement of Receipts and Disbursements during the above indicated period, together with Statement of Assets as at December 31, 1926.

The Receipts from all sources were verified by a comparison of the entries for same appearing in the Treasurer's Cash Book with the record of Bank Deposits and were found to be in accord therewith.

The Disbursements, as shown by the Cash Book, were supported by the proper vouchers in the form of cancelled paid checks or receipts for moneys expended. These were examined by us and confirmed the correctness of the payments made.

The Investment Securities listed in the Statement of Assets were examined by us and were found to be correct and in accord with the books.

We have also prepared and submit herewith Statement showing the financial condition of the S. N. Patten Memorial Fund and the Edmund J. James Memorial Fund as of December 31, 1926, as well as the Income derived from these fund Investments.

As the result of our audit and examination we certify that the statements submitted herewith are true and correct.

Yours respectfully,

(Signed) EDWARD P. MOXEY & Co.,
Certified Public Accountants.

AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE

STATEMENT OF RECEIPTS AND DISBURSEMENTS FOR FISCAL YEAR ENDED DECEMBER 31, 1926

Cash Balance January 1, 1926		\$12,070.30	
<i>Receipts</i>			
Members' Dues	\$35,784.79		
Life Membership	200.00		
Special Donations	4,316.00		
Subscriptions:			
Individuals	\$287.75		
Libraries	2,219.25		
Agents	6,232.54		
		8,739.54	
Sales	4,497.35		
Interest on Investments and Bank Deposits	7,325.77		
Endowment Fund Contributions	135.00		
Investments Sold	58,868.13		
Advertising	103.50	119,970.06	
			\$192,040.47
<i>Disbursements</i>			
Office Expense	\$4,299.61		
Philadelphia Meetings	7,925.76		
Publicity Expense	6,427.25		
Publication of <i>The Annals</i>	24,796.54		
Membership Records	4,532.23		
Sale of <i>The Annals</i>	761.37		
Investments	71,951.89		
Discounts and Collections	8.29	120,702.94	
Cash Balance December 31, 1926			\$11,337.53

DIRECTORS' REPORT

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Assets

Investments (Book Value)		\$143,680.78
Cash:		
In Academy Office	\$400.00	
In Treasurer's hands, Girard Trust		
Company	10,693.78	11,093.78
Balance due from Patten Memorial Fund		243.75
		<hr/>
		\$155,018.31

Book Department

SIMON, E. D. *A City Council from Within*. Pp. 246. New York: Longmans, Green and Company, 1926.

In publishing this book, the former Lord Mayor of Manchester has performed an important service to students of municipal government. He has set forth in most interesting form the activities of the city council of a typical British city, and has given, for the first time, a detailed picture of the methods pursued in the handling of municipal business, and has also set forth the principles which should guide a city council in the conduct of its affairs. The volume is one which will be of great service to every student of municipal affairs.

L. S. ROWE.

HANSEN, ALLEN OSCAR. *Liberalism and American Education in the Eighteenth Century*. Pp. xxv, 317. New York: The Macmillan Company, 1926.

To the critical and sensitive mind a survey of the history of educational thought must inevitably be a depressing experience. As theory after theory passes in review, one is overwhelmed with a sense of the relative futility of the visions of social and educational philosophers. Surely, if fine aspirations and beautiful systems of thought can bring salvation to the world, the world should have been saved centuries ago. Viewed merely as fine art these visions from the past constitute a priceless heritage. But are they more than poetry and music? Are they more than fair and glorious dreams of the human spirit? Or can they ever be? Generation after generation witnesses the formulation and the reformulation of educational ideals. But these ideals appear ever to remain in a sphere apart. The development of educational practice seems to proceed stubbornly on its way on a different plane.

It is with some such feeling that one lays down Hansen's *Liberalism and American Education in the Eighteenth Century*. At a time when social institutions were peculiarly in a state of flux, some of the finest minds ever produced on or attracted to the

American continent turned their attention to the contemplation of a system of education which would be in harmony with the ideals of the infant democracy. There were Franklin, Paine, Jefferson, Benjamin Rush, Noah Webster, Samuel Knox, Du Pont de Nemours, and a host of others. There was the American Philosophical Society with its selected American membership from Charleston to Boston and its French membership drawn from the best brains of France. On the part of these men, educators and men of affairs, there was an eagerness for human improvement and a faith in education as the instrument for this improvement which has not been equaled in subsequent generations. The country was new, the fetters of the Old World had been thrown off, and eyes were turned toward the future. One would think that under such a happy union of circumstance the scene was laid for the establishment of an enlightened system of education. But apparently such was not the case. The euphemistic characterization of the efforts of these Eighteenth Century liberals is that they were ahead of their times.

Mr. Hansen has rendered the students of politics and education an important service in rescuing from oblivion certain striking phases of the thought of the period that formed the American Union. Few persons realize the extraordinary interest in educational questions which was exhibited by the leading men of that time. Nor do they realize the fine quality of thought that went into the study of these questions. The close relationship between education and the form and ideals of society was clearly recognized. The creation of the Republic greatly stimulated educational discussion and gave rise to numerous plans for the establishing of a national system of education adapted to the genius of the new government.

The object of the author is to present in some detail the more important plans which were formulated. Following two short initial chapters dealing with the Dominant Ideas of the Eighteenth Century and the

Principles of the American Revolution, he devotes the remainder of the book, with the exception of a brief summary chapter, to a detailed analysis and criticism of the plans advanced by Benjamin Rush, Robert Coram, James Sullivan, Nathaniel Chipman, Samuel Knox, Samuel H. Smith, Lafitte du Courteil, Du Pont de Nemours, and Noah Webster. A period capable of producing these men would be an extremely fascinating and significant period in the history of any country. And a re-examination of their ideas serves as a fresh stimulant to an age, such as the present, which is disillusioned and unmoved by any great faith.

Mr. Hansen has made a valuable contribution to our educational literature. His study should now be supplemented by investigations designed to trace the relationships between this liberal thought on education and the actual evolution of our educational system. In spite of the melancholy note struck in the first paragraph of this review we would probably all agree that this thought was not wholly without its influence in the practical world. The Academy movement was most certainly greatly affected by it. And no doubt the development of our state systems of common schools and the liberalizing of the colonial college in the Nineteenth Century were partial fruits of this earlier intellectual adventure. But this period merits the most exhaustive study. Such a study might throw much light on a central problem in modern education, namely, the relation of the school to the state and to the forces that actually control education.

GEORGE S. COUNTS.

WOODY, CARROLL HILL. *The Chicago Primary of 1926: A Study in Election Methods*. Pp. viii, 299. Chicago: University of Chicago Press, 1926.

This volume adds another to the series of scholarly studies of practical politics being produced by the students of Professor Charles E. Merriam. Mr. Woody has attempted to give us a realistic account of one primary election, leaving us to draw our own moral. Nevertheless, the author is not wholly objective in all places. For example, he is willing to say that "we must

set down as a foremost ingredient in any scheme of improvement a patient and persistent effort to produce among coming generations, a more vigorous and enlightened type of citizenship" (p. 232). And in the very end of his book he does attempt to pass judgment on the Illinois primary law and to predict generally something as to the future of nominating systems, adding: "There is no need to despair of the future of our civic society—if only the citizen will vigorously participate in its activities, using the intelligence that he possesses and the knowledge that can be imparted to him by sound political education. Only his whole-hearted co-operation is required to assure the ushering in of a new day of civic competence and political righteousness" (p. 281). There must be some "catch" in this.

Generally, however, Mr. Woody's method is to present the facts, such as he has discovered them, as to the way in which the various factions in the two big parties, more especially the Republican party, in the City of Chicago made up its several slates for the primary election, to analyze the issues, to consider the various types of appeal made and to present an explanation of the results in terms of his own analysis. This has been done dispassionately and painstakingly. It is an extraordinary piece of work to have been accomplished by one who, a total stranger when he came to Chicago, remained there only a short while. Only those who are acquainted with Chicago can realize how thoroughly the work has been done. To others the question is bound to arise, "How did Mr. Woody find out all this?" for many, very many of his statements of fact are accompanied by no supporting evidence. He has relied largely upon the newspapers, but it is obvious that a good deal of the information could not have been obtained by any of the ordinary methods of research. Indeed the book is mostly first-hand reporting, for which the author's competence is amply demonstrated by his handling of the first chapter, "The Game, the Stakes, and the Players."

A few more such studies and a true conception of political processes will begin to reach the average citizen. We await with

interest the results of Mr. Wooddy's study of European nominating methods.

VICTOR J. WEST.

KNIGHT, CHARLES K. *Advanced Life Insurance*. Pp. xi, 426. Price, \$5.00. New York: John Wiley & Sons.

This book is properly named. It is "advanced" in the sense that it ably explains most of the more difficult, as well as the easier, phases of the science of life insurance. But, as the author aptly puts it, it is not advanced in the sense that it is difficult to understand.

The initial presentation of each subject is made in an elementary manner. The author, however, has very largely taken for granted the reader's conversion to an interest and belief in life insurance as a necessary, modern social institution. He has taken the tools of the science, such as interest tables, laws of probability, mortality tables and commutation columns, and has explained their construction and use in a most readable style. His discussion of the commutation columns is particularly noteworthy. Instead of mere page on page of continuous formulas he has interspersed much explanatory text.

The impression of scientific completeness remains as one reads the more commonly treated subjects of the book, such as valuation, expenses, sub-standard insurance, group insurance and accident and health insurance. The author's unique contributions are the following: the determination of the net cost to the policyholder; the determination of the rate of return on the "investment" element in life insurance policies; an analysis of this investment element so that it may be compared with other investments as regards safety and the rate of return; re-insurance in life insurance; and the organization and management of new companies. The appended compound interest tables, American Experience Table of Mortality and the tables derived therefrom, as well as the select mortality table, will all make the book most useful. One cannot help but feel that the author has effectually bridged the chasm between insurance textbooks and the more profound treatises on actuarial science.

STEPHEN B. SWEENEY.

BUCK, A. E. *Municipal Finance*. Pp. 266. New York: The Macmillan Company, 1926.

This volume, written by Mr. Buck in collaboration with other staff members of the National Institute of Public Administration, is a clear, concise statement of what every city's fiscal system ought to be. Professedly designed for city administrators and finance officers, it should be of value to all students of municipal affairs. It describes in some detail the correct procedure in such matters as budget making, cost accounting, purchasing, treasury management, assessment of property, and debt administration. Nine of the fifteen chapters are, in whole or in part, from the pen of Mr. Buck.

The outstanding weakness of the book, if it be a weakness, is its assumption that its recommendations are so obvious as to need no word of justification. Nearly every page is filled with a host of "shoulds"—"the budget summary should be supported by . . ." "it should show . . ." "it should be set up with . . ." "the total should agree with . . ." and the like, from cover to cover. Almost no reference is made to theory, and very little to the experiences of various cities.

As a matter of fact, the recommendations are nearly all sound. They represent the best in modern municipal financial administration. They are drawn in large measure from the experiences of the New York Bureau of Municipal Research, which has conducted more than a hundred surveys of city governments. But the average city administrator is not apt to be greatly influenced by a series of ex cathedra pronouncements. He must be told why as well as how.

The text is well written. Topics have been selected with considerable skill, and have been accorded space approximately in proportion to their importance. *Municipal Finance* is a real contribution to the literature of city administration.

AUSTIN F. MACDONALD.

The Urban Community. Edited by E. W. BURGESS. Pp. 12 and 268. Chicago: University of Chicago Press, 1926.

Professor Burgess, himself an able investigator in the field of urban life, has selected

from the papers presented at the thirty-second annual meeting of the American Sociological Society those pertaining to city affairs, and has issued them in the shape of the present volume. The introduction consists of the annual presidential address for that year by Professor Parks. With penetrating insight he maps out the inter-functioning and development of the various constituents of the modern city. With considerable logical grounds the subsequent papers are grouped under these general headings: "Human Nature and the City," "Social Biology of City Life," "Statistics of the City," "Ecology of the City," and "Typical Studies in Urban Sociology."

Necessarily in a composite work of this nature not all the contributions included are equally pertinent to the central topic they are supposed to illuminate rather directly. Some two or three out of the thirty or more selections are quite general and would fit into a general work on Sociology rather better than here. However, they do give scientific or philosophic basis or background to their groups of subjects and they occupy proportionately little space. All of the remaining articles are directed specifically at their objective.

One of the great merits of *The Urban Community* lies in its scientific nature. Since all the papers are research papers they give an intensely scientific approach to the urban situation. The contributors are thinking scientifically, sometimes technically, each in their own field, about the things they treat. The sociology of city populations has been backward in producing investigations of this nature. Here we have quite a number of important contributions which serve to define clearly and accurately significant situations. Though running the risk of seeming to draw invidious distinctions, nevertheless I cite two examples of clear-cut scientific contributions: *The Statistical Relationship Between Population and the City Plan*, by E. P. Goodrich, and *The Rise of the Metropolitan Community*, by N. S. B. Gras. The work of Goodrich exhibits a form of statistical procedure by which great cities or metropolitan districts may forecast their total and gradient future populations and so project commensurate plans. Mr. Gras by ana-

lytical methods lays bare the economic functions of the metropolitan district, the conditions of its spectacular rise to power and the contributions it makes to society. But these two samples are no better than some or several others of this series which I would fain notice in detail.

Another merit is the organicity of view presented in the volume. Although the authors and tasks are diverse, the ensemble aids us to see the city as a vital unit made up of multiplicity of parts and conditions in conflict and co-operating with one another. Instead of a great assemblage of "movements," "slums," "ghettos," and "Little Italys," we are enabled to see it as an integrated entity.

J. M. GILLETTE.

DONOVAN, HERBERT D. A., PH.D. *The Barnburners*. Pp. viii, 140. New York: The New York University Press, 1926.

1830-1852 was a period of unusual, active, bitter factional political warfare in New York State. It was the period of numerous factions: Anti-Renters, Native Americans, Free Soilers, Hunkers, Loco Focos, Barnburners. The Anti-Rent party grew out of the discontent aroused by the survival of old manorial rights in the patroonships along the Hudson. They controlled ten counties and held the balance of power for two years. The Native Americans coterie was chiefly confined to New York City and was active principally in 1834 and 1844. Its support was given to those of American birth. Free Soilers constituted the anti-slavery element of the Democratic party, whereas the Hunkers were the standpatters of that party, "hunkering" after the spoils of office, though, as Horace Greeley sagely remarked, he could never discover that they "were peculiar in that." The Loco Focos were the extremists of the Democratic party and were also known as the Equal Rights party.

The Barnburners were the Progressives of that party, demanding the reimposition of the direct tax and a radical restriction of canal building, which had become the scandal of the time. It was not so much opposition to canal building *per se* as a demand that it cease until it could be done honestly. As one of its leaders, Samuel

Young said, "they call us barnburners. Thunder and lightning are barnburners sometimes; but they greatly purify the whole atmosphere, and that is what we propose to do."

Dr. Donovan makes these distinctions clear and gives what is on the whole a brief, but satisfactory study of Democratic politics in New York during what he very properly calls the "eventful" second quarter of the 19th century. His conclusions are that the cleavage within the Democratic ranks grew out of a difference of principle, real, not assumed; in larger fields, the Radicals adopted the more progressive ideals; their connection with Martin VanBuren (of whom we have a pleasant picture) was more incidental than fundamental; the failure of the Barnburners to secure their objects more fully was due in part to their being in advance of their time, but more largely to the political deficiency of their leaders; but in spite of the disappointments, the movement had permanent results of great importance. In Dr. Donovan's words: "Its fusion of three currents—demand for constitutional and fiscal reform, demand for slavery restriction in the territories, and resentment of Southern domination in the national politics—started a great impetus towards the break-up of the ruling Democratic party and contributed vitally to the successful formation of the next dominant party, the Republican."

CLINTON ROGERS WOODRUFF.

ELMER, MANUEL C. *Social Statistics: Statistical Methods Applied to Sociology*. Pp. 306. Los Angeles: Jesse Ray Miller, Publisher, 1926.

This small volume has grown out of the long teaching experience of its author in the field of social research. The strange dread of quantitative methods of analyzing social phenomena by social workers, now happily passing, together with the widespread ignorance of the elements of statistics give this volume peculiar timeliness.

The rudiments of statistics are covered, avoiding detailed mathematical analyses. The student of social happenings is given some of the tools he most urgently needs. Important chapter headings include: Sources of Data; Graphic Presentation; Ratio and

Index Numbers; Probability and Error; Correlation.

The usefulness of the book is enhanced by a table of logarithms and a usable index.

The volume is planned to fill the needs of those students who have not specialized in mathematics but who urgently need a working grasp of the basic concepts of statistics. The plan is admirably carried out. Whether one desires to use elementary statistics, or simply to have a sound knowledge of them, they could not do better than to go through Elmer's *Social Statistics*.

HUGH CARTER.

BRAMER, JOHN PHILIP. *Parole*. Pp. 99. Published by the author, 477 Madison Avenue, New York, 1926.

This little manual, written by the Catholic Protective Society's parole supervisor in New York City, presents a brief outline of essential parole facts. The general reader will find here a simple statement of the nature, purpose and possible future development of parole. Social workers and parole agents will find an outline of the technique which should be applied in parole supervision. Criminologists will find a chronological history of the development of parole in the United States. The author also presents a plan of organization which might be used in the administration of parole in any of the larger American states. In conclusion he says, "No state wants careless, lifeless and inadequate supervision of delinquents after release. No state wishes listless, lazy, rubber-stamp parole systems which release delinquents with the calendar." And he adds, "The development of technique will greatly increase the cost of parole work, but in the long run the higher quality of service will prove a real social economy for the state." To which proposition, serious students of the subject will add an "Amen."

CLAIR WILCOX.

FRASER, HERBERT F. *Foreign Trade and World Politics*. Pp. xi, 346. Price, \$2.50. New York: Alfred A. Knopf, 1926.

This volume is divided into two parts. The first ninety-three pages deal with economic background, and the remaining two hundred pages with political back-

ground. Appendices deal with the causes and results of the World War.

The four chapters of the first part set forth the principles that underlie international trade, and especially those principles that determined the past and present tariff policies of the United States. Professor Fraser is a believer in free trade and a pronounced internationalist who sees the importance of clear thinking on foreign affairs, since such thinking "will occupy an increasing part in all serious political discussion in the United States." These chapters constitute a sane analysis of free trade and protection, and are worth reading by any who have an interest in, but not a knowledge of, foreign trade and our international policies.

The second part of the book covers more debatable ground. To show how logical deductions from economic principles should be reshaped to meet the political exigencies of modern nationalism is an adventurous undertaking. The reshaping depends upon the political principles that you accept. Two and two make four in politics as in economics, but it may not be "politically advisable" to add them at all. In politics, especially international politics, it is often not a question of what is the best and most logical course to pursue, but what plan is advisable under the circumstances. Professor Fraser believes that imperialistic policies are detrimental to mother countries as well as to colonies, that imperialism never stimulated healthy foreign trade. His chapter upon "The Economics of Imperialism" presents a startling picture of the motives behind the national expansion of the United States and of the states of Western Europe. In the later chapters he deprecates the growth of nationalism, advocates cancellation of the European debts, and condemns our policy of isolation because it "is sheer folly to suppose that what goes on in Europe is no concern of ours" (p. 232). The Monroe Doctrine to-day is designated as "ill-defined and vague" (p. 229), and the chapter on our "Commercial Growth" points out that through this doctrine "we seem to be preparing for ourselves no end of complications and difficulties" (p. 230). Secretary Hughes declared in 1923 that the Monroe Doctrine

is distinctly the policy of the United States and that we reserve to ourselves the definition, interpretation, and application of this doctrine. Professor Fraser believes that "This was Secretary Olney all over again, and it seems now to be the position of our State Department" (p. 287).

The last chapter—World Organization—is a natural conclusion to the argument running through the book. We need a World Court and a League of Nations; the United States should join both of them because "to-day nationalism is a more powerful influence in the United States than it is in any other country in the world" (p. 280).

Such views are worthy of attention because the presentation is straightforward and enlightening. The reviewer does not agree with them nor with the conclusions drawn therefrom. Professor Fraser implies that the present League of Nations works in accordance with the principles of economics and logic, while the reviewer believes that it has been a tool for political maneuvering. To condemn the United States for imperialism is to overlook divers occasions when no taint of imperialism colored our policy even if opportunity invited it. To condemn the present Monroe Doctrine is not enough. What policy should replace it? The State Department must work in a world of both economics and politics, but politics prevail.

HARRY T. COLLINGS.

LAPRADE, WILLIAM THOMAS. *British History for American Students*. Pp. 913. New York. The Macmillan Company, 1926.

Dr. Laprade has in his "British History for American Students" approached the subject from an interesting angle. His book is an attempt to treat English history from the viewpoint of the American student. Therefore, while writing a general narrative of English history, he devotes particular attention to those phases of the subject which intimately concern us through forming the background of our institutions.

With the object he has in view, the author divides his material into three periods, namely: (1) that preceding the settlement of America in which English institutions

were organized and the land developed which is characterized likewise by the control of the landed classes; (2) that lying between the settlement of the English colonies and the granting of their independence largely influenced by the rising commercial class; (3) and finally the period from the American Revolution to recent times during which industrialists have been the leading element in English society. These three periods he designates under the headings of "The Land and the People," "The Nation and New Lands," and "Industry, Democracy and the Commonwealth of Nations."

Breaking the usual sequence the author starts his account with the Normans, returning in his third chapter to an account of the earlier inhabitants of the island. He likewise omits reference to the geographical background with which many accounts of English history are prefaced. The idea in mind seems to be to call attention at once to the forces mainly responsible for molding the English institutions in which Americans are most naturally interested. It was the Normans who "constituted the first ruling class that England as a whole ever had." They laid the foundations solidly "upon which their successors continuously built." "The coming of the Normans thus marks the last revolutionary break in the development of English Institutions." "On that account the local approach to English history," so the author thinks, "is to begin the study of the subject where the Normans began their work."

As succeeding chapters are examined it is clear that Dr. Laprade has laudably molded social, economic, cultural and political factors into a growing synthesis, displaying the natural influence of one upon another, rather than assigning such material to distinct chapters or adding it as an afterthought. The book possesses real merit in its interpretation of institutional development. In many instances it gives a much more rounded account of this than that found in other texts of similar dimensions.

In examining the contents, however, the fifteen pages allotted to the Reformation, placed in the chapter entitled "The Birth of the Nation," appear rather a scanty treatment of such a subject, although much

is compressed in a small space. Likewise, while discussing the formation of English nationalism, it appears that some mention of the rising national spirit in and about Henry III's reign and the factors which were then promoting it, as also the effect of the Hundred Years War in that direction, should have been explained somewhere.

Insofar as the make-up of the text is concerned, it would seem that it would have been much more teachable if paragraph headings had been introduced to avoid heavy appearance and assist the student in focusing his thought. Likewise in some cases, care in avoiding too much detail would have improved its readability. However, these are matters concerning which considerable difference of opinion may be entertained. As indicated above, the book well deserves attention and careful study.

JAMES E. GILLESPIE.

WALLING, WILLIAM ENGLISH. *American Labor and American Democracy*. Pp. 417. Price, \$2.50. New York: Harpers & Brothers, 1926.

Those who wish for an authoritative account of the principles and policies of the organized labor movement in the development of American Democracy during the past century will welcome this volume. The author, a social scientist by training and an active participant in the activities of organized labor during the past decade, is eminently qualified for his task.

The volume under review shows the earmarks of painstaking research and high literary quality. The book is divided into two parts: the first undertaking to give an interpretative account of American labor as an important branch of American democracy, while the second aims to disillusion the reader with respect to European preconceptions that American labor is years behind British labor in social and economic development. According to the author its method of working out its salvation has been different though by no means inferior to that of the British Labour party.

American society in its process of evolution has already changed from a simple agrarian democracy with a small and uninfluential wage-earning class into a complex

commercial society with a large influential class of organized wage-earners largely dominated by the urban element. During this transitional period, labor has not remained static but has been gradually gaining ground on organized capital in the struggle for economic supremacy. Americans of all classes have been great believers in the efficacy of political panaceas for all kinds of economic ills, and it has taken labor some time to formulate a satisfactory political *modus operandi*.

The ventures of labor organizations upon the sea of politics before 1880 proved disastrous, but since that time under the leadership of the American Federation of Labor with its non-partisan policy, labor has become a progressively important factor in the political arena. Labor's main and ultimate economic-political goal is the democratization of our industrial society.

Labor believes in the axiomatic truth that the welfare of the whole of society is more important than that of any of its parts or classes, and, that while class legislation as such does not make for the safety of democracy, it is nevertheless justifiable as a means of securing its ultimate goal of social and industrial equity for all classes of society.

The author quotes freely the political utterances of leaders of organized labor. He says that labor is united as to the supreme importance of the practicability of electing progressives to Congress regardless of party affiliations. Repeatedly the Federation has explained that it is "partisan to men and to measures, partisan to candidates of parties, to principles and to planks of party platforms, but that it is not partisan to parties."

The author points out that it has been impossible in the past to get thoroughgoing co-operation between labor and the agricultural producer. Perhaps the chief barrier has been the difference in racial composition of the metropolitan wage-earning class and the rural class. However, the two classes are giving evidence of their growing recognition of mutuality of interests, and, with immigration greatly reduced, the prospects for the consummation of such an alliance in the near future is getting brighter every day.

Labor by pooling its resources is meeting with equally as great success in the field of banking as in that of politics. It is demonstrating its capacity for management of industry as organized wage-earners. This marks the beginning of a new era in unionism and, as Professor Carver contends, is causing a gradual and peaceful revolution toward a democratic capitalism.

In conclusion, the author points out that our government took its political form before the industrial revolution in this country and is now undergoing a process of adjustment to present-day needs.

This book deals with topics many of which are controversial and provocative of dissension, and will of course meet criticism at the hands of the thick-skinned and hide-bound reactionaries. It is well suited to the class-room requirements for students of labor problems and to the general reader, and it will serve as a useful reference book in this field of American Labor History.

THOMAS S. LUCK.

HINKHOUSE, FRED JUNKIN. *The Preliminaries of the American Revolution as Seen in the English Press, 1763-1775*. Pp. 216. Price, \$3.50. New York: Columbia University Press, 1926.

This is a study of British public opinion on the subject of the difficulties with the Colonies subsequent to the Seven Years' War and culminating in the Revolution. The author has conscientiously read the files of the British newspapers during that time and has achieved a narrative of some interest, thickly studded with quotations from his sources.

For, after all, nothing very startling is unearthed. We find that there was much sympathy with the Colonies expressed in England; but any student of American history, except those whose studies are limited to Commissioner Hirshfield's one hundred per cent American text-books, knows that. One is rather surprised at the frankness and even violence of the anti-government sentiment, and (from the standpoint of recent events in our own country) at the absence of censorship. The nature of the early British press is of interest, as is the wide diffusion of an intelligent interest in politics, coupled with a gift of pungent literary ex-

pression. It was the age of the political pamphleteer and the letter-writer, and much permanent literature was cast in the form of journalism.

On the whole, however, it seems as if much laborious research and able writing had been expended on a subject of questionable value.

J. H. LEEK.

CORY, M. A. *The Rise of South Africa, 1838-46*. Pp. xviii, 546. Price, \$9.00. New York: Longmans, Green and Company, 1926.

This is the fourth of a series begun fifteen years ago. Two more volumes are promised. The author is not a professional historian, but has undertaken, in addition to teaching science in Rhodes University, Grahamstown, South Africa, extensive researches in history. He has made good use of his opportunities and has drawn upon such sources as the *Grahamstown Journal*, the important Craig Dhu Collection, and the voluminous materials in the archives of the Union Government. The account of the Great Trek is based upon the untranslated works of Preller, *Piet Retief, Voortrekkerkermense*, and *Dagboek van Louis Triegardt*. The importance of this local material is demonstrated forcibly on page 333. The official material would seem to show that everything was quiet along the border when in reality cattle were being stolen, farmers were being murdered by the score, and their homes burned by the marauding Kaffirs. The author acknowledges his especial indebtedness to the late Dr. Theal, not only because of the material contained in his works, but more particularly because of the inspiration and encouragement gained from personal contact.

The volume covers eight years of South African history, 1838-46, and is principally concerned with the Great Trek, the beginnings of Natal and the Orange Free State, and the Kaffir War of 1846. Nearly one-half of the volume is devoted to the latter event. Incidental treatment is accorded such topics as education, the establishment of pioneer churches, and the emigration movement of 1844-45. In some respects the story is reminiscent of the American

frontier; the movement of population into new regions, the conflicts with the aborigines, treaty making, and finally, the feeling between the burghers and the regulars during the Kaffir War reminds the reader of certain incidents of the French and Indian War. In a work of this character a mass of detail is of necessity introduced, yet out of the maze of Boer, Kaffir, and Zulu names, mingled with a host of local happenings, certain general truths emerge. The Great Trek was caused almost entirely by the desire of the Boers to get away from British rule. The home government was but slightly concerned with the affairs of the remote South African frontier, and was inclined to favor the natives at the expense of the Dutch and English frontiersmen. The officials at Cape Town were incompetent and ignorant of frontier conditions.

The author is decidedly sympathetic with the Boers, but honestly records facts unfavorable to them. The lack of adequate maps is a serious defect, making it impossible to follow the narrative intelligently in the latter part of the book, where the names of obscure places, rivers, etc., abound. The reader who would like to know more about the sources is aided slightly by the occasional footnotes.

ARTHUR N. COOK.

HOYT, ELIZABETH ELLIS. *Primitive Trade*. Pp. 191. Price, 7/6 net. London: Kegan Paul, Trench, Trubner & Company, Ltd., 1926.

The purpose of the authoress is stated by herself as follows: "Our study makes no claim . . . to be a thorough investigation of all the aspects of primitive economic psychology. Its purpose is simply to use the materials of anthropology as the best available materials for a fuller understanding of economic value as it exists among ourselves." Her method is essentially inductive. The book traces the development of the modern theory of value by means of the description and elaboration of three mental processes which are held to be necessary to its evolution: (1) The development of interests. (2) The objectifying of interests. (3) The expansion of trade. The source, development and diffusion of inter-

ests are well treated. The part played by habit is likewise aptly stressed. The development of modern theories of exchange is rather logically set forth and compels attention.

The definition or explanation of the term "primitive man" is suggested, but dealt with inadequately. Those people living to-day under a different cultural régime than ours, commonly known as primitive peoples, are the type accepted as possessors of the proper qualifications for the purpose of the book. Is it possible to arrive at "a fuller understanding of economic value as it exists among ourselves," by a study of peoples whose cultures are as venerable as our own? The question deserves greater attention than it here receives. While the contention of the book is that there are other motives than economic motives directing, and which have directed, men's activities, economic motives are conceded to preponderate to-day. "Economic motives teach civilization as no other motives have ever done." The conclusion drawn is that the so-called economic interpretation of history is one side of a process of development of which the ethical interpretation is the other. The book attains its purpose, and is well worth reading.

WALTER E. MACDONALD.

BREWSTER, A. J. *An Introduction to Retail Advertising*. Pp. 319. Price, \$5.00. Chicago: A. W. Shaw Company, 1926.

Mr. Brewster has endeavored to "educate the retailer in the principles of advertising and in their application to his problems." The book is essentially a selection, compilation and adaptation of facts and principles to fit the retailer's needs.

The author first takes up the field of retailing, including the place of the retail store in business and a discussion of retail market surveys. He next discusses advertising as it affects the retailer, including manufacturers' advertising, the purpose of retail advertising and how retail advertising and manufacturers' advertising should work together.

Collecting data and writing advertisements is taken up in some detail. Making advertisements effective by type, layout and

illustration is next discussed rather fully, followed by a section on advertising mediums. This section includes a discussion of newspapers, direct (mail) advertising, window display and show cards.

The problems of department stores, of chain stores and of the small town store are each given one chapter. The final section deals with the help available from manufacturers, sellers of space and from other retailers. The final chapter deals with truth in advertising.

The book serves to indicate to the retailer the ways in which he can improve his advertising and provides him with a convenient compilation of elementary facts and principles adapted to his needs. Both functions are well performed.

KENNETH GRUBB.

LINCOLN, EDMOND E. *Testing Before Investing*. Pp. 319. Price, \$5.00. Chicago: A. W. Shaw Company, 1926.

Laying down any specific rule of thumb for testing investments is almost an impossibility, due to the divergent factors which not only govern the physical and financial condition of a corporation, but also the market of its securities. In attempting such a task, one is liable to omit certain vital elements which may act as a safeguard to a particular class of securities.

It is a difficult task for a theorist to place himself on the same level of intelligence as the average investor. The part human nature plays in investment is the biggest obstacle to overcome, and even the security laws of the different states do not prevent it from diverting the small investor from the paths of sound judgment. All tests are thrown overboard, if he is convinced by an emotional appeal that he will have the opportunity to enrich himself without labor. In most every case, human nature is too eager to open the door for opportunity, when it is only the wolf.

Mr. Lincoln's treatment of his subject is not an exhaustive analysis (his work being confined to a small book of less than one hundred pages), but by emphasizing salient points in outline form, he formulates some basis upon which the small investor may use his own judgment. Mr. Lincoln acknowledges that there is no one formula for suc-

cessful investment, since it is accomplished only through correct information and sound judgment. Some of his tests are beyond the analysis of the small investor and can only be applied by a specialist in securities, who has recourse to competent records. His book, however, makes an excellent primer for the uninitiated.

PAUL W. LEITCH.

GRIMES, WILLIAM A. *Financing Automobile Sales by the Time-Payment Plan*. Pp. x, 116. Chicago: A. W. Shaw Company, 1926.

The study which received the first prize for monographs in the field of Business Development and the Modern Trust Company offered in 1926 by the Chicago Trust Company.

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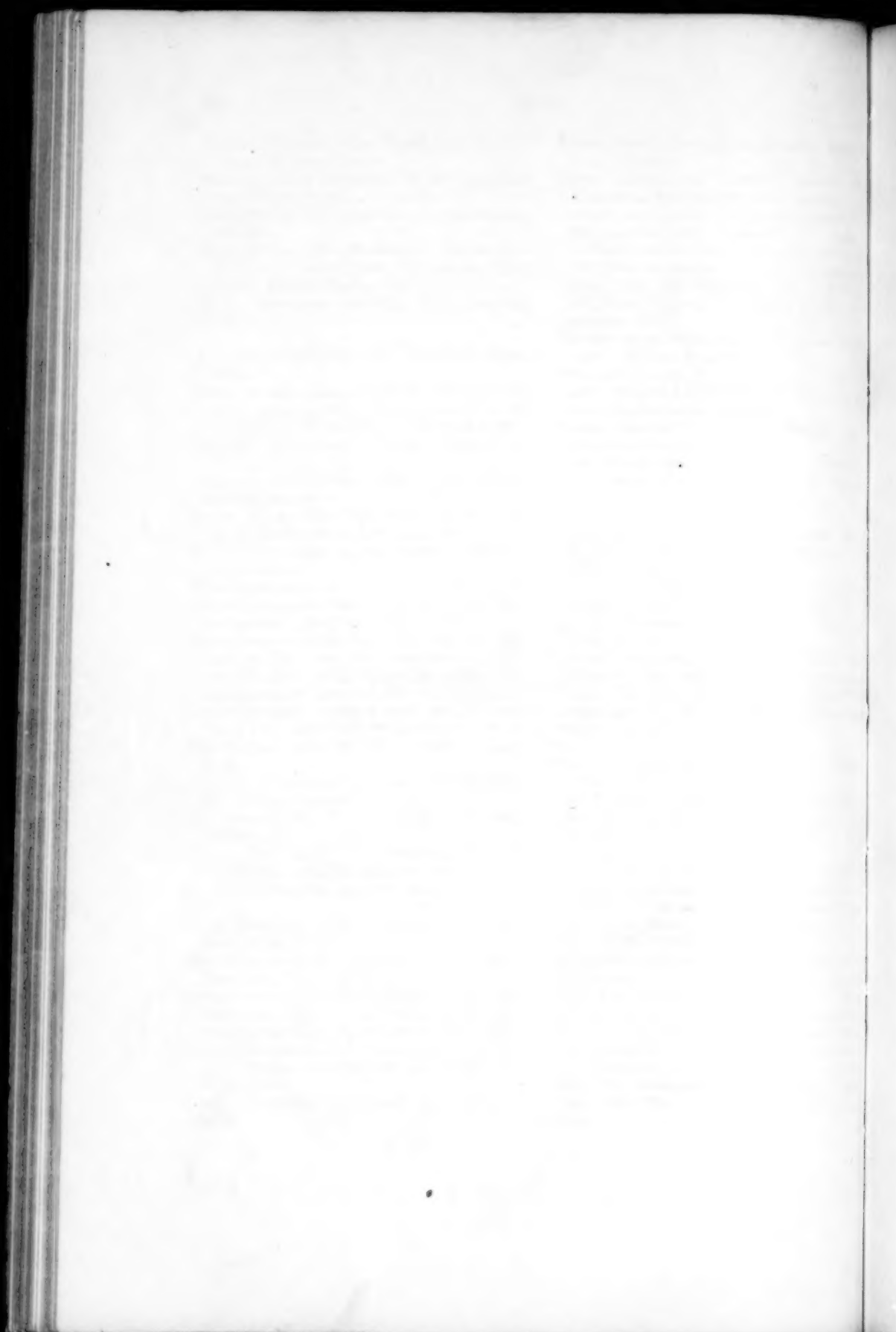
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THE LEGAL MINIMUM WAGE IN MASSACHUSETTS

BY

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Supplement to Vol. CXXX of THE ANNALS
of the
AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
Philadelphia, March, 1927



THE ANNALS

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INTRODUCTORY NOTE

THE decisions of the Supreme Court of the United States that the minimum wage laws of the District of Columbia and of Arizona are repugnant to the Constitution have rendered the existence of the legal minimum wage in the United States precarious, to say the least. If minimum wage legislation is to continue as a part of our system of labor legislation, either it must do without those elements of coercion which the Court found invalid or else the Constitution itself must be changed. In view of the fate of the child-labor amendment, there seems to be scant possibility of an amendment to the Constitution which will permit a mandatory minimum wage law. Any statute which attempts to establish minimum wages in the immediate future, therefore, must be of the recommendatory or advisory type. The pertinent question at present is whether enough can be accomplished with a law of this nature to justify its existence.

The Massachusetts statute is the only recommendatory law in the United States at present. For this reason it has been the subject of much interest since the decision in *Adkins v. Children's Hospital*. With the exception of the Nebraskan statute, which was repealed in 1919 after six years of inaction, and of the Massachusetts law, all of the sixteen laws of continental United States have provided for compulsory enforcement of the minimum rates. The Massachusetts statute is

significant also because it is the oldest law in this country. It is the only law in a purely industrial state. Now that the District of Columbia statute is invalid as applied to adult women, the Massachusetts law is also the only one in the eastern part of the United States.

It is the purpose of this study to present the available facts relative to the operation of the minimum wage law of Massachusetts. The author has continually striven to make this a descriptive rather than an argumentative account. Only secondary consideration has been given to the theoretical aspects of minimum wage legislation. One of the most serious difficulties under which the student of minimum wage legislation is laboring at present is the lack of definite, authentic information pertaining to the actual operation of specific laws. This study attempts to supply such information in the case of one statute.

The writer wishes to acknowledge his indebtedness to the present as well as past officials connected with the administration of the law. Without their co-operation this study could never have been made. In particular he wishes to thank Miss Ethel M. Johnson, Acting-Director of the Division of Minimum Wage of the Department of Labor and Industries of Massachusetts for her very valuable assistance. The writer's obligation to Professor David A. McCabe of Princeton University for his helpful criticism is also great.

The Legal Minimum Wage in Massachusetts

CHAPTER I

ORIGIN AND CONTENT OF THE LAW

The adoption of a minimum wage law by Massachusetts in 1912 was a result of a nation-wide agitation for minimum wage legislation. This movement appeared during the early part of this century and reached its height during the five-year period from 1910 to 1915. It was one of the major social questions confronting the country. Almost every state proposed laws. In eleven of these states statutes were enacted.¹

When we look for the causes of this agitation our attention is immediately struck by the prominence that was being given to the increasing cost of living as evidenced by rising prices. According to the present figures of the Bureau of Labor Statistics, the wholesale price index rose about twenty-five per cent between 1900 and 1910.² In view of the increases in the cost of living which we have experienced since 1915, an increase of twenty-five per cent during a ten-year period seems a mere bagatelle. At that time, however, it naturally seemed a matter of grave concern. It meant a serious reduction in the standard of living. Public sentiment over the industrial condition of unskilled female labor in particular had been aroused by numerous studies

showing the persistence of low wage scales while the cost of living was mounting. Among these investigations the most important were those conducted by the Federal Bureau of Labor of the conditions of women and child labor.

The problem was rendered more acute by the extensive flow of immigration which was at its height during these years just before the war. The depressing effects on wages of immigrant labor focused attention on that type of labor. The preservation of the "American standard of living," coupled with the belief that extensive exploitation of newly arrived women was occurring in sweatshops and factories, aroused interest in minimum wage legislation as preventive means. The following remarks made by the Reverend John A. Ryan in 1910 are typical of this attitude:³

The greatly increased proportion of immigrant workers, their bad distribution as to industries, place, and time, their peculiarly destructive competition, and their inability to organize, make their lower cost of living a grave menace to the normal standard, and consequently to the health, efficiency and character of a very large section of the American people. . . .

There seems to be but one measure that gives any promise of anything like general efficiency, namely, the establishment by law of minimum rates of wages that will equal or approximate the normal standards of living for the different groups of workers. . . .

³ John A. Ryan, *A Minimum Wage and Minimum Wage Boards*. Proceedings of the National Conference of Charities and Correction at the Thirty-seventh Annual Session, 1910, pp. 460, 465.

¹ The following states adopted minimum wage legislation during these five years: Massachusetts in 1912; California, Colorado, Minnesota, Nebraska, Oregon, Utah, Washington and Wisconsin in 1913; Arkansas and Kansas in 1915. Laws have also been adopted in Arizona, the District of Columbia, North Dakota, Porto Rico, Texas and South Dakota.

² Reckoning 1913 as the base year, the index stood at 81 in 1900. In 1910 it was 101. United States Bureau of Labor Statistics, *Wholesale Prices 1890 to 1922*, Bull. No. 335, pp. 8-9.

There were also the stimulating experiences of England and Australia with the legal minimum wage. The adoption of the Wage-Boards Act by England in 1909, and its apparently successful operation under conditions very like conditions in industrial centers in this country, acted as a decided incentive to adopt a similar measure.

The agitation in Massachusetts was an integral part of this nation-wide movement. It was not due to unusually low wages in that state. The investigations made by the Department of Labor and others had shown conditions there to be more favorable than in many other places. The movement resulted in action earlier in Massachusetts than in other localities, largely because the influence of the Women's Trade Union League of Massachusetts together with that of the Consumers' League quickly aroused public sentiment. Moreover, Massachusetts has always been peculiarly responsive to English influence in the field of social legislation. The disturbing textile strike of 1912 also had a stimulating effect.

The first move toward securing a law in Massachusetts was the presentation of a petition to the legislature asking for an investigating commission to ascertain what the actual facts were. This request could not be readily refused and a commission was created, May 11, 1911, to study the matter of wages of women and minors and to report on the advisability of establishing boards to fix minimum rates in any industry.⁴ The commission made investigations in three industries: retail selling, candy making, and laundrying.⁵

⁴ General Court of Massachusetts, Resolves of 1911, Chap. 71.

⁵ Commission on Minimum Wage Boards, Report to the General Court of Massachusetts, January 1912. House Doc. 1697.

It secured data concerning the cotton textile industry from the studies of the United States Department of Labor. The wage situation in these four industries was indicated by the following figures: In the candy industry only seven per cent of the women had average weekly earnings for the year preceding the investigation as high as \$8.00 per week. Over sixty-five per cent were earning less than \$6.00 a week. In the stores sixty per cent were earning less than \$8.00 and thirty per cent were earning less than \$6.00. In the laundries only twenty-five per cent were earning \$8.00 or above and forty-one per cent less than \$6.00. In the cotton mills sixty-seven per cent were earning less than \$8.00 and thirty-eight per cent less than \$6.00. The commission concluded that "it is indisputable that a great part of them [the women workers] are receiving compensation that is inadequate to meet the necessary cost of living."

It was also found that different establishments even in the same industry were paying widely different wage scales. As an illustration the wages in six large department stores of Boston were offered for comparison. The per cent of workers earning less than \$6.00 in the several stores was as follows: 14, 20, 37, 42, 49, and 67. This fact of widely differing wage scales in different establishments operating under practically identical conditions was pointed to as showing that a legal minimum wage would not have a detrimental effect on industry.

A partial cause of the low weekly earnings was found in the lack of steady work. Unemployment was great. The candy factories, for instance, were found to be operating during the spring and summer months with only one-half or three-fourths of their normal working force. The commission also found that the great

majority of the workers lived at home and that they turned their wages into the family fund. Nearly one-fourth of the workers, either as individuals or as members of families, had been the recipients of charity at one time or another.

The workers were for the most part young unmarried girls—a class, it was claimed, that is peculiarly susceptible to wage exploitation. In the candy industry only thirteen per cent had attained twenty-five years of age. Even in the laundries, where an older class of women are employed, only forty-eight per cent had reached the age of twenty-five. The number who were married ranged from four per cent in the candy industry to twenty-three per cent in the laundries.

The results of this investigation convinced the commission of the need of minimum wage legislation. The experience of Australasia and England was considered, and the commission believed that a law patterned after the laws in Victoria and England would accomplish the best results. The commission said:⁶

Legislation of a similar character, the commission believes, should be established in Massachusetts. The need of it is as great, and the possibilities of its successful administration in the compact population and well-established industrial and mercantile employments are promising. The fact that there is a large number of women who must maintain themselves; many of whom are called on to contribute also to the support of others, and that there is a large army of women upon whose assistance the welfare of their family groups depend in part, presents a social question of great importance.

The need of work is so great and the workers are so numerous that the employers may dictate their own terms, limited only by their sense of social responsibility and

by the restricted competition of other employment opportunities. . . . Even with women who have no other assistance, the wages may be forced below the minimum cost of living, without provision for the assurance of health, for unemployment or for old age, and this deficit must inevitably come ultimately as a charge on society.

In the opinion of the commission the number who are working in order simply to add to their comforts or luxuries is insignificant. Women in general are working because of dire necessity, and in most cases the combined income of the family is not more than adequate to meet the family's cost of living. In these cases it is not optional with the woman to decline low-paid employment.

As to the effects of the proposed legislation on the financial condition of industry, the commission observed:

The commission believes that our industries in general are not dependent upon such underpaid labor and that by gradual adjustment of wage scales the present unfortunate condition in a number of employments could be improved without injury to the employing interests. If an industry is permanently dependent for its existence on underpaid labor, its value to the Commonwealth is questionable.

The commission consequently recommended the enactment of a minimum wage law. The members were unanimous in believing that some legislation was desirable. The employer representative, however, refused to sanction a mandatory law, although he endorsed the general intent and purpose of the majority. As it turned out, the minority recommendations were eventually adopted by the legislature. The bill encountered remarkably little opposition. It passed both Houses with but two votes recorded against it. The measure became a law on June 4, 1912.⁷

⁷ *Acts and Resolves passed by the General Court of Massachusetts in the Year 1912, Chap. 706. See Appendix I.*

⁶ Commission on Minimum Wage Boards, *op. cit.*, p. 16.

THE LAW

It will be helpful to have in mind the main provisions of the law before proceeding to discuss its actual operation. The statute creates an administrative commission of three members. The first duty of this commission is to inquire into "the wages paid to the female employees in any occupation in the commonwealth, if the commission has reason to believe that the wages paid to a substantial number of such employees are inadequate to supply the necessary cost of living and to maintain the worker in health."

If wages are found to be inadequate, the commission is to establish a wage board in the occupation in question. At the present time the size of these boards is left to the discretion of the commission. There must be equal representation afforded to both employers and employees and one or more representatives of the public. The number of public representatives cannot exceed more than half the number of either of the other parties. The commission designates the chairman from the public representatives, makes rules and regulations governing the selection of members and the procedure of the boards, and exercises exclusive jurisdiction over all questions concerning the validity of the boards' deliberations.

Each board "shall endeavor to determine the minimum wage, whether by time rate or piece rate, suitable for a female employee of ordinary ability."

The boards are also directed to recommend suitable rates for learners, apprentices and minors. In determining rates, the boards are to consider the needs of the employees and the financial condition of the industry, with the probable effect thereon of any increase in wages paid. Different rates may be determined for different

branches of an industry. The recommendations of the wage boards are not final, but may be approved or disapproved by the minimum wage commission either in whole or in part, and the subject may be submitted to a new board or resubmitted to the old board. If the commission decides to adopt the recommendations and embody them in a decree, it must publish its intention of so doing and must hold a public hearing. It may then issue an order declaring the minimum rates for the industry.

The law provides no penalties in the form of fines or imprisonment for failure to observe the minimum rates. The commission is simply given the power to publish the names of non-complying employers in such manner as it sees fit. Publication in some form is required, however. The commission does not have the option to publish or not as it sees fit. This advisory or recommendatory feature has made the Massachusetts law unique among minimum wage laws. The public does not coerce an employer to pay any particular minimum wage, but directs the commission to ascertain what the minimum wage should be and then to inform the public as to those employers who are paying wages below this minimum.

The chief reason for eliminating the clause providing for compulsory acceptance of the rates seems to have been the fear of having the law declared unconstitutional. There was also doubt in the minds of the proponents of the bill whether it would be enacted if it called for compulsory acceptance of the rates. A recommendatory law was felt to be better than nothing.

If an individual employer is unable to pay the rates named in the commission's order, he may ask for a judicial review. If he can demonstrate that the condition of his business will not

permit him to pay the rates in question, the court is to exempt him from the penalty of advertisement. The decree is still in force for the industry as a whole, however.

The physically defective are provided for by special licenses granted by the commission practically without statutory restrictions. These licenses authorize the worker to accept less than the standard minimum rate. No provision is made in the law for those merely slow or incompetent. In any occupation in which a majority of the workers are minors the commission may issue a decree without the formation of a wage board although an investigation and public hearing are required.

A wage board may be reconvened for the purpose of revising a decree to meet changes in the cost of living at the discretion of the commission. Originally the commission had to wait for a petition from either the employers or employees. Any employer who discharges a worker for activity connected with the operation of the law commits a misdemeanor for which a penalty of \$1000 is provided.

Far reaching changes in the organization of the commission were made in December, 1919. In that year Massachusetts reorganized her executive and administrative departments, as had been contemplated for some time. In this reorganization, various labor and industrial bureaus and commissions were consolidated into one department called the Department of Labor and Industries.⁸ The executive and administrative head of this department is a commissioner. He is aided by three associate-commissioners and one assistant-commissioner. The three associate-commissioners constitute by the terms of the law the Board of Conciliation and Arbitration. The functions of the Minimum Wage

Commission "except as to matters of an administrative nature" have been transferred to this board.⁹ Thus the Minimum Wage Commission as it had been created in 1912 was abolished, although the three associate-commissioners who succeeded the old commission are still commonly called the Minimum Wage Commission. They form the Division of Minimum Wage of the department when administering the minimum wage law, as minimum wage work was made one of the divisions of the new department. One of these associates must be a representative of labor and one must be a representative of the employers. All are appointed for a three-year term by the governor with the advice and consent of the council. The assistant-commissioner, who must be a woman, is interested for the most part in the administration of the minimum wage law. In fact, by agreement among the commissioners, she has been given the title of Acting-Director of the Division of Minimum Wage although a formal appointment has never been made.

She thus holds a dual position. As assistant-commissioner she is one of five officials administering the Department of Labor and Industries. As acting-director of the Division of Minimum Wage she is the executive officer immediately responsible for the enforcement of the minimum wage law. If her status were nothing more than that of a director or "acting-director" of a division in the department, she could be removed by the commissioner and associate-commissioners. As an assistant-commissioner, however, she receives her appointment from the governor. This situation is of some importance as it is generally believed that she is in favor of a more vigorous policy of enforcement than are the

⁸ *Acts and Resolves (etc.) of 1919, Chap. 350, Sec. 72.*

⁹ *Acts and Resolves (etc.) of 1919, Chap. 350.*

commissioners. Of course, questions of policy are still beyond her jurisdiction. They are decided by the three associate-commissioners acting as the Minimum Wage Commission or by the department as a whole.

Before proceeding with a discussion of the operation of the law, we should form some acquaintance with the personalities of the officials behind it. It will easily be recognized that the policy of the commission is far more important with this law than with a strictly mandatory one. The Massachusetts statute provides so many safeguards for industry which readily become excuses for inaction, that the law can easily become meaningless if the commissioners so desire. The first commission was composed of members of unusual abilities, and what is of more importance, of members thoroughly in sympathy with the law. The chairman was Mr. H. LaRue Brown, a Boston attorney who had been instrumental in drawing up the law and securing its passage. A woman had been appointed by the governor as permitted but not required. She was Miss Mabel Gillespie, secretary of the Woman's Trade Union League. Her organization had been influential in working for the law. Miss Gillespie was an aggressive unionist although she was always loyal to the minimum wage law. The third member of the commission was Professor Arthur N. Holcombe of Harvard University. He also had been one of those who had worked for the law and was eminently fitted for the position. It is doubtful whether the caliber of succeeding commissioners has equalled that of this first board. The chairman, Mr. Brown, served but a little more than a year. He resigned in September, 1914, to become a special assistant to the Attorney-General at Washington. He was succeeded by

Mr. Robert E. Bisbee of South Middleborough, a retired clergyman. His appointment was made apparently for political and personal reasons. He was an intimate personal friend of Governor Walsh. He served only the unexpired part of his predecessor's term, declining reappointment.

The amendment of 1916 requiring one of the commissioners to be an employer of women caused a change in the composition of the commission. Mr. Edwin N. Bartlett, a textile manufacturer, was appointed to the position. He succeeded Mr. Bisbee as chairman. This appointment likewise seems to me to be somewhat anomalous. Mr. Bartlett's integrity and abilities cannot be questioned. Nevertheless, he does not seem to be a proper person to be chairman of the commission. As ranking officer of the commission he was the one primarily responsible for the enforcement of the law. As representative of the employing class he was supposedly advancing the interests of a group which has consistently opposed enforcement. His point of view was, naturally, that of an employer. Whether the operation of the law was adversely affected by this situation is impossible to say. The chairman, while nominally the chief enforcing officer of the law, was but one of three commissioners. Furthermore, of the other two commissioners, one, Miss Gillespie, was keenly alive to the interests of the employees. Her first term expired in 1916 and she was reappointed as the labor representative.

Apparently the commission was generally divided at this time. Professor Holcombe must have been by far the most important member of the commission. Most questions of policy were settled by his acting as arbitrator between the other two members. Such a position is not always a pleasant one. There was much dissatisfaction

with the policy of the commission—a policy for which Professor Holcombe as the one impartial member seems to have been primarily responsible. The employers, for the most part, did not favor anyone who stood for vigorous enforcement of the law. The employees did not support anyone who refused to use the law as a press to squeeze exorbitant wage rates out of the employers. It was difficult to find a person who did not meet with disapproval from one or both parties. Although Professor Holcombe's term expired in 1916 and he did not care for reappointment, a successor could not be found. He continued to serve on a temporary appointment for another year when his duties in Washington compelled him to leave.¹⁰ Mr. Charles F. Dutch, an aggressive but conservative Boston attorney, was appointed. Like his predecessor, Mr. Dutch stood for strong and impartial enforcement of the law.

Mr. Bartlett's term as chairman expired in 1918, and he declined reappointment. Mr. Arthur C. Comins, a wool textile manufacturer of Worcester, was appointed. Mr. Dutch became chairman. Mr. Comins has been even more outspoken in his condemnation of the law than Mr. Bartlett. In testifying before a legislative commission which was investigating the law in 1922, he said:¹¹

"A minimum wage applied by law in any form is wrong in principle and will not accomplish the object sought."

Yet it should not be assumed that

¹⁰ Professor Holcombe served from 1917 to 1919 as special investigator of War Activities, United States Bureau of Efficiency.

¹¹ Special Commission on . . . the Minimum Wage; Testimony taken at the second hearing. This testimony has never been published, but is on file at the State House, Boston. This commission is generally referred to as the "Recess Commission."

these partisan representatives did not render valuable services on the commission. Mr. Comins in particular, while opposed to minimum wage legislation, was very conscientious in fulfilling the duties of his office. He did much to persuade the employers to conform to the law. He also advocated several amendments which strengthened the position of the commission.

Nothing has been said yet of the executive officer of the commission, the secretary, or, since 1920, the acting-director of the Division of Minimum Wage. She it is who attends to the details of administration. The duty of enforcing the policies decided by the commission is hers. She has active charge of all investigations. She is present at all wage board meetings. She directs the work of securing compliance. It is evident that she plays a very important rôle in the administration of the law. The selections for this post have been very fortunate. There have been but three incumbents. The first was Miss Amy Hewes, Professor of Economics at Mount Holyoke College. She remained until 1915 when she resigned to resume her duties at Mount Holyoke. Miss Ellen N. Matthews, an investigator for the commission, succeeded her. Miss Matthews served four years, leaving to become Assistant-Director of the Child Labor Division of the Children's Bureau of the United States Department of Labor. Her successor was Miss Ethel M. Johnson, Executive Secretary of the Congressional Committee of the Massachusetts Women's Suffrage Association.

The consolidation in 1919 of the commission with other bureaus and commissions required changes in membership. Mr. E. LeRoy Sweetser, an officer with the Massachusetts National Guard, became head of the Department of Labor and Industries. The associate-Commissioners, who constitute

the Board of Conciliation and Arbitration are Mr. Edward Fisher, an attorney, who is chairman; Mr. Herbert P. Wasgatt, a retired shoe manufacturer, who represents the employers; and Mr. Samuel Ross, an official of the Mule

Spinners' Union of New Bedford, who is the representative of the employees. Miss Johnson, secretary of the old commission, was appointed assistant-commissioner. Later she was made acting-director.

CHAPTER II

INDUSTRIES TO WHICH THE LAW HAS BEEN APPLIED

Minimum wage decrees have been issued for eighteen industries in Massachusetts. These industries employ between 80,000 and 85,000 women and girl wage-earners in over 5000 estab-

lishments, about one-fifth of the female wage-earners in Massachusetts. The number of women in the various industries covered by decrees can be seen from the following tabular summary:

APPROXIMATE NUMBER OF FEMALE WAGE-EARNERS IN INDUSTRIES AFFECTED BY MINIMUM WAGE DECREES IN MASSACHUSETTS

Industry	Approximate Number of Female Wage-Earners	Date of Effectiveness of First Decree
Brush	800	Aug. 15, 1914
Laundry	5,000*	Sept. 1, 1915
Retail Stores	25,000*	Jan. 1, 1916
Women's Clothing	5,000	Feb. 1, 1917
Men's Clothing and Raincoats	4,000	Jan. 1, 1918
Men's Furnishings	4,000*	Feb. 1, 1918
Muslin Underwear	3,000*	Aug. 1, 1918
Retail Millinery	600*	Aug. 1, 1918
Wholesale Millinery	2,000*	Jan. 1, 1919
Office Cleaning	10,000*	Apr. 1, 1919
Canning and Preserving	500	Sept. 1, 1919
Candy	7,000	Jan. 1, 1920
Corset	1,600	Mar. 1, 1920
Knit Goods	1,000*	July 1, 1920
Paper Box	3,000	July 1, 1920
Minor Lines of Confectionery	800*	Nov. 1, 1921
Druggists' Preparations	1,500*	Jan. 2, 1924
Bread and Bakery Products	2,000	May 1, 1925
Stationery Goods and Envelopes	3,000	Jan. 1, 1926
Jewelry	3,000*	Jan. 1, 1927
Total	82,000	

* Estimates based on the commission's figures. Estimates for other industries are taken from figures prepared by the Massachusetts Bureau of Statistics, *Statistics of Manufactures for 1920, passim*. The sums named in the various decrees are given in the table on page 24. The wholesale and retail branches of the millinery industry are now combined under one decree. Canning and preserving and minor lines of confectionery are combined also.

The responsibility for establishing minimum rates for an industry rests entirely with the commissioners of the Department of Labor and Industries. The Minimum Wage Commission is directed to make an investigation in any industry or occupation in which it has reason to believe that wages are low. It may include an entire industry with all its branches or it may cover only a fraction of an industry. The law does not define the term "occupation," but permits the commission to determine the limits of any investigation as well as the scope (with only minor restrictions) of any particular decree. A study of the investigations conducted by the commission throws considerable light on the administrative policy of the officials behind the law. The findings of these investigations are interesting also because they reveal the industrial condition of this type of labor at the time the investigation was made. These investigations are among the few serious studies that have been made.

The commission conducted an even dozen investigations covering periods prior to 1916. War fluctuations in wages were not sufficient at that time to prevent the grouping of the data uncovered by these investigations in one summary. The table below, consequently, presents the average weekly earnings of the women in these industries.¹² Average weekly earnings are found by computing the sum of all payments made to the worker during the period studied, usually a year, and dividing this sum by the number of weeks actually worked as shown by the pay-roll record of the number of weekly payments. Only those workers who are considered a part of the normal working force of an industry are included.

Of these 30,000 women over one-fourth were earning less than \$5.00 per week. Nearly half were earning less than \$6.00. Only one-eighth earned \$9.00 or more. In the early part of 1914 the brush wage board and the

¹² Minimum Wage Commission, Bulls. Nos. 1, 2, 4, 5, 6, 8, 9, 10, 13, 14, 15, *passim*.

AVERAGE WEEKLY EARNINGS OF WOMEN IN THE BRUSH, CORSET, CANDY, LAUNDRY, RETAIL STORE, PAPER BOX, AND GARMENT INDUSTRIES IN MASSACHUSETTS, 1913-1915

Occupation	No. of Women Included in Records	Percentage of Women with Earnings			
		\$5	Below \$6	\$8	\$9 and Over
Brush	597	42.7	66.2	88.6	7.0
Corset	2,110	20.0	35.5	68.7	16.4
Candy	3,326	49.0	69.6	92.1	2.5
Laundry	2,961	25.0	51.5	82.2	8.2
Retail Stores:					
Regulars	6,449	22.5	33.9	66.4	21.5
5¢ and 10¢ Stores	418	49.8	84.4	95.9	2.4
Paper Box	2,178	30.2	44.5	75.7	14.6
Women's Clothing	1,961	31.4	50.1	78.1	12.1
Knit Goods	3,460	24.0	40.7	74.3	13.4
Men's Clothing	1,132	23.1	42.8	78.1	13.7
Men's Raincoats	626	18.8	36.6	65.0	20.1
Muslin Underwear	2,481	29.1	48.2	80.2	10.9
Men's Furnishings	2,658	23.9	37.7	71.9	15.8

candy wage board estimated that the amount necessary to meet the cost of living was \$8.71 and \$8.75, respectively. Less than one-fourth of the women were earning enough to defray the necessary cost of living as shown by these figures.

There is some truth in the statement that the situation of these 30,000 workers is not representative of the conditions in the industries as a whole which employed at that time nearly 60,000 female workers. This challenge has been made against all of the investigations. It is not true, however, that the investigations covered with design the poorest paid workers. Most of those who could not be included in the records were of that floating type of labor which the commission has not felt warranted in including because they are not an integral part of the industry. There is no evidence to show that the wages of these 30,000 women are not sufficiently representative to give an accurate picture of the general wage situation.

Scheduled rates of wages are obtainable only in the case of those women who are working on a time-rate basis. Time-rates were not the prevailing practice in these industries. Really significant figures of rates were secured only in the candy, laundry and retail store industries. In the candy factories fifty-four per cent of the workers were scheduled to receive less than \$6.00 per day and only four per cent were scheduled to receive as much as \$9.00. In the laundries thirty per cent were scheduled to receive less than \$6.00 and sixteen per cent to receive \$9.00 or more. In the stores these percentages were twenty-three and twenty-eight. It is apparent that a great difference exists between the rates at which the women are scheduled to be paid and their actual earnings. The chief cause of this difference ap-

pears to be the excessive amount of lost time. The commission attempted to secure serviceable data as to the relation between hours and wages, but was able to do so only in the candy factories and the knitting mills. Records of 1326 women were secured in the candy industry. Twenty-nine per cent of these women worked on the average less than forty-two hours a week. Only seven per cent worked for fifty or more hours a week. The legal maximum in Massachusetts at that time was fifty-four hours. This paucity of full-time employment explains in part why the women actually earned so much less than they were scheduled to receive. Ninety-two per cent of the women who worked less than forty-two hours a week earned less than \$6.00. Seventy-nine per cent of those who worked forty-two or more hours a week earned less than \$6.00.

In the knitting mills records of hours were secured for 2337 women which give a fairly representative picture. It was found that six per cent of these workers averaged less than thirty hours a week. Fifty-seven per cent worked less than forty-two hours per week. Fifty-two per cent of the women who worked on the average less than forty-two hours a week earned less than \$6.00 a week. Only twenty-six per cent of the women who worked more than forty-two hours a week earned less than \$6.00.

Another striking fact that has been revealed in almost all investigations is the wide variation between the wages of different establishments. This variation appears even between firms making similar products under very similar conditions. In the fourteen brush factories the median of the average weekly earnings varied from below \$5.00 in five establishments to \$9.00 or more in four others. In the eight corset factories the median varied from

below \$6.00 to over \$8.00. Six of the thirty-six women's clothing shops were paying only one-fourth of their workers less than \$6.00. Three firms were paying only one-fourth of their workers more than this amount. Three of the twenty-seven knitting mills were paying wages so low that the median was below \$5.00. An equal number of firms were paying wages such that the median was \$8.00 or more. These illustrations are typical of all industries studied.¹³ Variations in rates of payment have been equally pronounced.

To throw further light on the wage situation, the commission attempted to ascertain the annual earnings of these

situation in respect to annual earnings as shown by the commission's figures can be seen from the table below.

These figures would indicate a wage situation so low that the women must have had other sources of income. Nearly two-thirds were earning less than \$300 per year which would amount to only \$6.00 per week. About one-third of those covered by the records were *scheduled* to receive as little as this, and a few less than half actually earned it for the weeks they worked.

The commission places the responsibility for these alleged low annual earnings to a great extent upon the large amount of unemployment during

ANNUAL EARNINGS OF WOMEN IN THE LAUNDRY, RETAIL STORE, PAPER BOX, AND GARMENT INDUSTRIES OF MASSACHUSETTS, 1913-1915

Occupation	Number	Percentage of Women with Earnings			
		\$100	Under \$200	\$300	\$400 and Over
Laundries	2,961	44.3	61.5	74.8	11.0
Retail Stores	6,449	29.6	37.7	57.0	29.7
Paper Box Shops	2,178	31.0	46.9	62.0	18.5
Garment Trades	12,318	34.4	52.2	67.6	14.4

workers. This attempt was not particularly successful. To calculate accurately the entire yearly income of these women, their entire industrial history during the year should be available. The Minimum Wage Commission cannot collect these facts for any great number of women. The

¹³ The facts in the other industries were as follows: In four of the thirty-six laundries the median of the average weekly earnings was under \$5.00. In seven it was \$7.00 or over. In the twenty-two stores the median ranged from below \$5.00 to \$8.00 or over. In the twenty-four paper box factories the median varied from below \$4.00 to \$8.00 or more. In the men's clothing shops it ranged from below \$5.00 to \$9.00 or more. There is little significance in comparing wages in the muslin underwear and men's furnishings industries because of the great difference in products.

the year. From the figures presented by the commission very few women seem to have been employed each month throughout the year.¹⁴ It is

¹⁴ The percentage of women having employment in the same establishment for as many as ten months in the various industries was as follows:

	Per Cent
Laundry	30.2
Candy	26.4
Retail Stores (regulars)	53.9
Five-and-Ten-Cent Stores	17.7
Paper Box	46.1
Women's Clothing	21.5
Men's Clothing	27.7
Raincoats	34.7
Knit Goods	48.0
Men's Furnishings	42.6
Muslin Underwear	37.0

Estimates could not be made in the brush and corset industries.

hardly accurate, however, to apply the term unemployment to this situation. It shows rather that there was excessive shifting of the women.

The above facts were deemed sufficient to show the need for minimum rates. The average weekly earnings of a majority of the women were not sufficient in the opinion of the commission to provide a decent standard of living. Wage boards were established and minimum rates fixed in all these industries.¹⁵

The next employers to receive the attention of the commission were in the hotel and restaurant, millinery, building cleaning, and canning and preserving industries. The commission was unable to do much for the women in hotels and restaurants. The wage situation in this industry was complicated by the practice of providing food and lodging in addition to a money wage. The determination of proper minimum rates to cover all women—

those who received both board and lodging as part compensation, those who received board but not lodging and those who received only one or two meals—would have been very difficult. Furthermore, to the extent that workers were receiving food and lodging they were independent of the cost of these items. Consequently, in spite of the fact that the income of these women seemed to be inadequate, the commission contented itself with sending a statement to employers urging all who were paying unusually low wages to meet the standards of the other employers. It is an interesting fact that a later investigation showed much improved conditions for which the commission's activity seemed to be responsible, in part at least.

Average weekly earnings in the millinery, building cleaning, and canning and preserving industries can be seen from the following table:¹⁶

AVERAGE WEEKLY EARNINGS OF WOMEN IN THE MILLINERY, OFFICE
AND OTHER BUILDING CLEANING, AND CANNING AND PRESERVING INDUSTRIES IN MASSACHUSETTS,
1916-1918

Occupation	Percentage of Women with Earnings				
	Less Than				\$12 and Over
	\$6	\$8	\$9	\$10	
Millinery:					
Straw Hat.....	11.8	28.9	36.7	45.9	35.4
Flower and Feather.....	62.1	84.1	89.0	95.1	0.5
Wholesale Millinery.....	23.4	46.8	61.1	72.0	15.5
Retail Millinery.....	24.8	39.0	55.8	67.8	16.0
Building Cleaning.....	30.3	89.1	96.3	3.7*	
Fish Canning.....	37.0	73.8	91.5	97.1	2.9**
Preserving.....	17.0	64.2	86.2	96.5	3.5**

* \$9 and over.

** \$10 and over.

¹⁵ Although boards were established, rates were not issued for the candy and paper box industries until 1918 because of the question as to the constitutionality of the law. Rates were not issued for the corset industry until 1920 because of the resignation of one of the members of the board.

¹⁶ Minimum Wage Commission, *Wages of Women Employed as Office and Other Building Cleaners in Massachusetts*, 1918, Bull. No. 16.

Wages of Women Employed in Canning and Preserving Establishments in Massachusetts, 1919, Bull. No. 19.

Wages of Women in the Millinery Industry in Massachusetts, 1919, Bull. No. 20.

These wages appeared inadequate when compared with the estimates of the cost of living made by the various wage boards. In the spring of 1916 the women's clothing board estimated the cost of living to be nearly \$9.00. Yet the proportion of women earning this sum in the millinery industry varied from sixty-three per cent in the hat factories to only eleven per cent in the flower and feather shops. Less than four per cent of the building cleaners were earning as much as \$9.00 a week. During 1917 and 1918 the cost of living was variously estimated to be between \$9.65 and \$12.50. Only 3.2 per cent of the women in the canning and preserving industry were earning as much as \$10.00 a week.

Time rates, so far as they were procurable, showed a somewhat more favorable picture. This was natural as the amount of lost time was large. Annual earnings were meager. In each industry over half of the women were earning less than \$200. The chief cause of these low annual earnings was nominal lack of employment, although it must be remembered again that the women may have had other employment. In all these industries the variations in wages between different establishments that appeared in previous investigations was pronounced.

The need for minimum rates in these industries appeared to be great. At the public hearings, however, employers in each industry protested vigorously against the convening of wage boards, presenting all sorts of ingenious arguments. The commission honored these protests to the extent of postponing the creation of boards until supplementary investigations could be made in all occupations except the retail branch of the millinery industry. These later investigations still showed wages to be inadequate in spite of the

promises of employers to be more liberal. Eventually wage boards were established for all occupations except the manufacture of straw hats.

In 1918 the commission seriously considered the establishment of rates for the cotton textile industry. It may be remembered that the investigation by the Federal Bureau of Labor in 1909 had shown conditions to be bad in this industry.¹⁷ The situation in this industry was, in fact, one of the stimuli for adopting the law. The commission had avoided this industry until the law had become well established. It was clearly recognized that the issuing and enforcement of rates for the large number of textile workers would severely test all the powers of the commission. In 1918, the commission made an investigation in this industry with a view to the issuing of a decree. The commission decided, after its investigation, not to establish minimum rates. No wage board was formed and no decree issued. This decision has undoubtedly served to discredit the law in many quarters. It has led to charges of ineffectiveness in not covering the larger industries. It has been said that the great political and industrial influence of the textile manufacturers has secured immunity for them. It is pointed out that, at the time this decision was made, one of the minimum wage commissioners was a textile manufacturer himself.

The decision not to proceed with the formation of a wage board for this industry was based on the fact that wages seemed to be rising without minimum rates. The facts revealed by the Federal investigation in 1908 and the notoriety of the Lawrence strike of 1912 were improving the wage situation entirely apart from war conditions. In order to show changes in wage conditions over a two-year period, a tran-

¹⁷ *Supra*, p. 2.

script of the pay-roll record of each employe for the first six months of 1915 and for the same period in 1917 was made in fifty-five mills. Rate increases between June, 1915 and June, 1917, follow in the table below.¹⁸

It is apparent that wages underwent a considerable increase during these two years. The median rate in 1915 had been between \$7.00 and \$8.00. Two years later it was between \$10.00 and \$11.00. In 1909 the median rate had been found by the Federal Bureau

templated issuing decrees for ten other industries. Only five of these have, as yet, been actually placed under rates (January 1, 1927). Factories manufacturing loom harness were studied in July, 1919. The number of women employed was too small to warrant the establishment of minimum rates.¹⁹ Only four factories were operating in the state. An investigation of wages paid to women engaged in the manufacture of stationery goods, envelopes, and miscellaneous paper products was

CHANGES IN WEEKLY RATES OF WAGES OF WOMEN IN THE COTTON TEXTILE INDUSTRY IN MASSACHUSETTS BETWEEN JUNE, 1915, AND JUNE, 1917

Year	Percentages of Women with Rates				
	\$6	Less Than \$8	\$10	\$12	\$15 and Over
1915.....	16.8	60.6	91.4	99.5	0.1
1917.....	1.4	10.5	43.5	69.5	4.5

of Labor to be below \$7.00. If the cost of living in 1915 was about \$8.75 and in 1917 was about \$10.00, as had been estimated by the wage boards, the situation of the women in this industry was improving in spite of the increase in prices. This was the situation which influenced the commission not to convene a wage board. There were other industries which seemed to need the influence of minimum rates more than the cotton industry. The resources of the commission have been so limited that only those industries in which the need of rates is clearly imperative can be placed under minimum rates.

Since 1918 the commission has con-

made early in 1920. It was found that forty-four per cent of the 2,256 women had average weekly earnings of \$15.00 or more per week; and that twenty-four per cent were earning \$18.00 or more per week.²⁰ In view of these wages the commission did not think it necessary to establish a wage board at this time. In 1925 the commission decided that a wage board was needed, although a formal investigation was not made. A decree became effective January 1, 1926. Women working in shops making embroidery were also investigated in 1922.²¹ As in the loom harness in-

¹⁸ Minimum Wage Commission, *Seventh Annual Report*, 1919, p. 25.

²⁰ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Annual Report for 1920*, pp. 12-13.

²¹ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Annual Report for 1922*, p. 4.

¹⁸ This comparison included the wages of about 9000 women. These figures have been published in the *Sixth Annual Report* of the Minimum Wage Commission, 1918, pp. 11-14.

dust, the number of these was found to be too small to warrant a wage board. Rates were decreed for the minor lines of confectionery, druggists' preparations, bread and bakery products, and jewelry industries. Information concerning the jewelry industry is not available at this time. The wage situation in the other three industries can be seen from the table below giving the average weekly earnings.²²

The cost of living as estimated in the four budgets drawn up in 1919 averaged

manufacture of druggists' preparations were earning a living wage according to these figures. About three-eighths of the bakery workers seemed to be earning sufficient wages.

Wages paid in different establishments varied greatly. In two of the 35 confectionery factories the median showing the average weekly earnings was below \$6.00. In three it was at \$15.00 or more. In the druggists' preparations industry this variation was all the more striking because wages did not vary to any great extent between

AVERAGE WEEKLY EARNINGS OF WOMEN IN THE MINOR LINES OF CONFECTIONERY DRUGGISTS' PREPARATIONS AND BREAD AND BAKERY PRODUCTS INDUSTRIES IN MASSACHUSETTS, 1919, 1920 AND 1923

Industry	Percentage of Women with Earnings			
	\$8	Less Than \$10	\$12	\$15 and Over
Minor Lines Confectionery	25.6	50.1	72.9	7.3
Druggists' Preparations	8.9	31.8	68.5	11.4
Bread and Bakery Products	5.5	22.2	49.3	16.5

very nearly \$13.00. From the above table it is evident that only about one-fourth of the women in the minor lines of confectionery industry were earning this much. The cost of living in the summer of 1920 was estimated to be somewhat over \$15.00. Only about one-tenth of the women engaged in the

different branches of the industry. We find the median varying in different factories from below \$8.00 to \$14.00 or more. In the bakeries the median varied from below \$9.00 to over \$16.00.

Time rates, so far as they were obtainable, indicated the same situation except that they were a little higher than weekly earnings as is to be expected. The high labor turnover is seen by the fact that over one-third of the women had worked less than a year in their present employment.²³ As these industries seemed to need minimum rates, wage boards were established.

Recent investigations have been made in the toy and game industry, in

²³ Annual earnings and monthly employment were not ascertained.

²² Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Report on the Wages of Women Employed in the Manufacture of Food Preparations and Minor Lines of Confectionery in Massachusetts, 1920*, Bull. No. 23. *Passim*.

Ibid. *Wages of Women Employed in the Manufacture of Druggists' Preparations, Proprietary Medicines and Chemical Compounds in Massachusetts, 1923*, Bull. No. 24. Unpublished manuscript *Passim*.

Ibid. *Wages of Women Employed in the Manufacture of Bread and Bakery Products in Massachusetts*. Unpublished manuscripts. *Passim*.

shops manufacturing boot and shoe cut stock and findings, in the electrical industry, and in the jewelry industry. The results of these investigations are not yet available. The commission has decided to issue rates for the toy and jewelry industries, however. Final action has not yet been taken in the other industries.

In those industries in which minimum rates have been established over 30,000 women were definitely found to be receiving less than the sum sufficient to meet the cost of living as estimated by the various wage boards. There is also no question but that there were many unrecorded women in these industries whose wages were equally as low. The actual number of these women is, of course, indeterminable, but it certainly is large.

It is also plain that low weekly earnings are due to a great extent to unemployment. In few industries do more than a small percentage of the workers find employment for the full length of the working week. Thus we find a great difference in most industries between actual earnings and scheduled rates. The cause of this unemployment is somewhat uncertain. In part it is due to mental and physical characteristics of the women themselves and to this extent is beyond the scope of minimum wage or other legislation. It is equally true that the industries are in great measure to blame and this fact should be taken into consideration in determining minimum rates. Wages have also been found to vary greatly between establishments operating under similar competitive conditions.

The minimum rates in these occupations all seem to have been needed. The commission could not be justly accused of issuing rates without the need for them having been well established. Action toward the estab-

lishment of decrees has frequently been postponed and in some cases definitely stopped at the representation of the employers that rates were unnecessary. The commission has always been receptive of new information from the employers. It has never extended its jurisdiction arbitrarily.

As to sins of omission, the question is more doubtful. Has the law been as effective as it could have been? There are about 400,000 women and girl wage-earners in Massachusetts. There can be no question of minimum rates for about 150,000 of these, because they are in professional or domestic service, in executive or clerical positions, or are in thoroughly organized industries. These women have no need for minimum rates. The minimum rates cover about three-tenths of the remainder. The important problem is whether the other 175,000 are receiving wages high enough to make minimum rates unnecessary.

The three largest employers of women in Massachusetts are the cotton, boot and shoe, and woolen manufacturers. These industries employ about one-third of all women wage-earners in the state. The question is frequently asked why these important industries have escaped. In 1920 the Massachusetts Bureau of Statistics reports that only eight per cent of the women in the cotton industry were receiving weekly rates less than \$15.00.²⁴ Eighteen per cent of the women in the boot and shoe industry were receiving less than this rate. Eight per cent of the women engaged in manufacturing woolen goods were being paid at rates less than \$15.00 a week. These figures show a wage situation considerably better than that which the commission believes warrants minimum rates.

²⁴ Bureau of Statistics, Commonwealth of Massachusetts, *Annual Report on the Statistics of Manufactures for 1920*, pp. 82-123.

It must also be remembered that the wage boards have been reluctant to recommend rates high enough materially to affect wages in any but the most lowly paid industries. The women in these large industries have been receiving, for the most part, more than the amount which most wage boards would be willing to recommend.²⁵

Nevertheless, while the boot and shoe and textile industries as a whole may not need minimum rates, certain divisions of them seem to. As in the millinery industry it might be well to divide these industries into smaller occupations and issue rates for the more poorly paid branches. One of these divisions is the cut stock and findings branch of the boot and shoe industry. (Although shoe manufacturers may object that this is not a branch of their industry.) This occupation employs over 3000 women. The general wage level can be seen by the fact that in 1920 thirty-nine per cent of the women were receiving rates less than \$15.00 a week. It is to be hoped that the commission will decide to establish a wage board for these workers. The cotton small wares is another occupation which seems to need minimum rates. There are about 1000 women in this branch of the cotton industry. Forty-one per cent of these women were being paid at rates less than \$15.00 in 1920. Women engaged in the manufacture of felt goods also receive low wages. Fifty-eight per cent of the 800 or 900 women in this occupation were receiving rates less than \$15.00 in 1920. Various persons interested in the further extension of the law have recommended that branches of these large industries be brought under minimum rates. The department has seen fit, however, to leave these wages undisturbed. The comb and hairpin industry also

²⁵ *Infra*, Chap. IV.

seems to merit rates. This is a relatively small industry, employing only about 600 women, but it is no smaller than other industries for which decrees have been issued. In 1920, sixty-seven per cent of these women were being paid at rates less than \$15.00. These figures are but indications of the actual wage situation. They seem to show, however, that there is need for minimum rates in industries as yet untouched.

As I said at the beginning of this chapter, the investigations conducted by the commission are valuable not only because of the wage information secured, but also because of information pertaining to age, living arrangements, and degree of independence of the workers. As very little of such information is available from other sources, these facts should be briefly presented. First as to age. Most of the "submerged" workers are young. In certain industries over half are less than 21 years of age. Less than one-third are over 30 years of age. It has also been found that wages had little connection with the age of the worker. There is some tendency for wages to increase up to about twenty-five years of age. This seems to be due to the greater experience of the worker rather than to her greater maturity. Even so, wages increased with the number of years of experience only up to the fifth or sixth year in the industry. Thereafter there was little relation in most industries either between wages and experience or between wages and age. The tasks are relatively simple, and there is little opportunity for the worker to increase her wage by greater efficiency or skill.

As one would expect from the age of the workers, we find most of them living at home. The proportion varies from sixty-eight per cent in restaurants to ninety-six per cent in the building cleaning industry. Very nearly seven-

eighths of all workers whose records could be secured were living with relatives. The girl "adrift" is much in the minority.

An important question in the fixing of minimum wages is the relation between wages and living arrangements. It has been found that those in a family economy receive a somewhat lower wage than those living in-

family whether she is contributing to the support of others, is receiving support herself, or neither. The data secured by the commission seem to show that the great majority of the women are self-supporting. In the seven industries in which the investigation covered sufficient numbers of women to be of significance, the situation was as follows:

PERCENTAGE OF WOMEN IN VARIOUS INDUSTRIES IN MASSACHUSETTS WHO ARE ENTIRELY SELF-SUPPORTING

Occupation	No. of Women Included in Records	Percentage of Women Who Are Self-Supporting
Corset.....	628	70
Paper Box.....	578	66
Minor Confectionery.....	253	60
Druggists' Preparations.....	530	69
Canning and Preserving.....	109	73
Restaurants.....	...	87
Bread and Bakery Products.....	192	73

* Not given.

dependently. This is to be expected, of course, because those living with their families are normally either younger or older than the average.

Another interesting question on which the commission has attempted to collect information is that of dependency. In the more recent investigations estimates have been made of the extent to which these women are being supported by others, are entirely self-supporting or are contributing to the support of others. This information is not very satisfactory. In only a few industries have enough women been studied to permit generalizations. It is secured from the workers themselves, and the questions of the commission are open to the personal interpretation of each woman. It would, in fact, be difficult for anyone to decide in the case of a girl living with her

These figures seem to show that over two-thirds of the women were "entirely self-supporting." Those who were self-supporting earned considerably higher wages than the others. In the corset industry, for instance, in 1919, forty-six per cent of the women who were dependent on their own earnings had average weekly earnings of \$12.00 or more. Only twenty per cent of those not self-supporting were earning as much as this. This difference was evident in other industries.

Most of these women were supporting not only themselves but relatives as well. The situation in regard to this point was as shown in following table.²⁶

²⁶ The commission also has said of restaurant workers, "Over one-third reported that they were wholly or partially responsible for the support of others." Minimum Wage Commission, *Wages of Women in Hotels and Restaurants in Massachusetts*, 1918, Bull. No. 17, p. 30.

PERCENTAGE OF WOMEN IN VARIOUS INDUSTRIES IN
MASSACHUSETTS WHO ARE "CONTRIBUTING TO THE
SUPPORT" OF OTHERS

	No. of Women Included in Records	Percentage of Women Contrib- uting to the Support of Others
Corset.....	610	64
Paper Box.....	573	58
Druggists' Preparations.....	504	63
Minor Confectionery.....	251	52
Canning and Preserving.....	105	60
Bread and Bakery Products.....	203	75

Those who were "contributing to the support of others" were earning more than their sisters who were not. Forty-one per cent of the former were

earning \$12.00 a week or more. Only thirty-two per cent of those who had no burden but their own livelihood earned as much as \$12.00.

CHAPTER III

DETERMINATION OF MINIMUM RATES: WAGE BOARDS

The determination of the rates of wages under a minimum wage law is second in the interest it holds only to the results of the law. The law says, in effect, that there is a sum below which the wages of women and girls should not go. This sum must be arbitrarily fixed with only secondary consideration of the usual determinants of market wages. This is no small task. It is the purpose of this and the succeeding chapter to discuss the procedure and policies followed in Massachusetts in solving this problem and the success which has been attained.

The actual determination of the minimum rates is performed by individual wage boards for each industry. During the first thirteen years of the law, twenty-eight of these boards have been established. The paper box and brush industries have had three boards each. The corset, candy and women's

clothing industries have had two boards each. The following industries have had one each: retail stores, laundrying, men's clothing and raincoats, muslin underwear, men's furnishings, office and other building cleaning, knit goods, druggists' preparations, bakery products and jewelry. The millinery industry formerly had two boards, one for the wholesale and one for the retail branch. One board now functions for the entire industry. The same is true for the canning and preserving and the minor lines of confectionery industries. One board now functions for both these occupations. Several of these boards have been convened a second time and a few have met a third time to revise rates which they had earlier recommended.

The usual procedure of the commission, if its investigation of an industry shows a need for minimum rates, is to

hold a hearing in order to give employers the opportunity to present evidence to show that further steps toward the formation of a wage board are not justified. These hearings are not required by law, but are held to secure the co-operation of the employers.

Wage boards must consist of an equal number of employer and employe representatives and of one or more representatives of the public, the number not to exceed one-half the number of representatives of either of the other parties. Wage board members (except the public members) are appointed by the commission from nominees chosen by employers and employes respectively. To prevent a controlling faction of either party from packing its side of the board, the commission can call for twice as many nominees as there are to be representatives on the board. If a sufficient number of nominations are not made, the commission appoints not less than half of the persons so nominated and may appoint the remaining members of the board directly without consulting either party.

One of the most serious problems in administering the law has been encountered in securing satisfactory wage board members. It has been particularly difficult to find well-qualified representatives of the employes. Most employes have too little interest in the law as well as understanding of it to make wise nominations. They are also very reluctant to serve on wage boards. In certain instances this reluctance has amounted to actual fear and has made the formation of vigorous boards almost impossible. The law does, of course, attempt to protect the worker against discharge or discrimination because of participation in wage board work. These provisions of the law have never been invoked,

however, as such discrimination is almost impossible of proof. While the fear of discharge is probably unfounded in the majority of instances, there have been cases of apparent discrimination. Two employe members of the first brush board were "laid off" immediately after their appointment.²⁷ The commission investigated but could not secure reasonable evidence of guilt. There have also been more recent cases in the minor lines of confectionery and druggists' preparations industries. Here also the commission decided not to press the matter. The president of the Telephone Operator's Department of the International Brotherhood of Electrical Workers, who was also a member of the retail store board, wrote me:

Discriminations have been fairly prevalent against workers' representatives from the industries where no protective organization existed, and the commission does not appear to be able to protect workers in such instances.

It is, of course, very easy for an employer to find other causes for discharging an employe when the real cause is wage board work.

The difficulty is not only one of securing the requisite number of persons who are willing to serve on the boards. It is partly one of selecting members who will take an active part in the deliberations after they have been selected. It must be remembered that this class of women is largely unorganized. These employes are with-

²⁷ The commission has remarked of this incident, "The workers were likewise willing to serve, but some of them labored under a serious handicap in their apprehension that their activities upon the board might affect the tenure of their positions. The commission is glad to say that in the main this apprehension has proved without foundation. . . . That there should have been one apparent exception is not surprising, though regrettable." . . . (Minimum Wage Commission, *First Annual Report*, 1913, p. 12.)

out the backing of labor organizations. They have had no training in collective bargaining. Many become nonentities at board meetings because they fear to express themselves. Such members cannot effectively represent the interests of their constituents.

Because of this reluctance, the legislature has never required that the members of boards should be persons engaged in the industry in which the board is functioning. In fact the law says nothing about the qualifications of representatives. The commission formerly made a practice of appointing at least a part of the employee representatives from occupations other than the one in which the board was to function if appropriate nominations were secured. At least one trade-union official was usually appointed. The present commission looks with disfavor on this practice and has discontinued it. Both employer and employee representatives are now invariably members of the industry in which the board is functioning.

Difficulty in securing well-qualified members of wage boards has not been confined to representatives of the employees, however. While the constitutionality of the law was still in doubt, there were several attempts on the part of employers to block wage board proceedings by refusing to participate. The functioning of the candy board, the laundry board, and the paper box board was entirely stopped for a time and the functioning of the men's furnishings board was considerably retarded by obstructionist tactics on the part of the employer representatives. In recent years the employers have shown an increasing willingness to cooperate in wage board work. This is due both to a lack of opportunity to block proceedings and to a greater appreciation of their duty to obey the law while it remains on the statute books.

The public members of the wage boards are appointed directly by the commission. Their number has been one or three depending on the size of the board. The chairman of the board is chosen from their number.

It is dangerous, of course, to generalize about such a matter as the competency of the members of these wage boards. It is my impression that the Massachusetts boards have not been blessed by members of outstanding abilities. The chairmen are exceptions. They have performed their duties unusually well. The employees in particular, however, seem prone to nominate representatives of only indifferent caliber.

The commission has always tried to make the boards large enough to give adequate representation to all interests. Of the twenty-eight boards coming properly within the scope of this study, the majority have been composed of fifteen members each. Eleven have been composed of less than this number. The laundry board was composed of thirteen members. The recent millinery board consisted of nine members. The two former millinery boards, the original canning and preserving board, the second corset board, the knit goods board, the third brush board, the druggists' preparations board, the stationery board and the bakery board were composed of seven members. The others have been of fifteen or more members. During the first year of the law, the commission was compelled to appoint boards of thirteen or more.²⁸ The feeling is now growing that a board of this size is not necessary. The only advantage in a large board is the representation of all interests. Adequate representation

²⁸ The law required at least six representatives of employers, the same number of representatives of the employees and one or more public representatives.

can be secured, however, on a small board. Neither the interests of the employers nor those of the employees are usually so divergent that more than three representatives are necessary.

The authority of the commission over a board does not extend so far as to change the findings of the board. It is the wage board, not the commission, which determines the cost of living for a woman worker and what the minimum rates should be. The commission's power is limited to accepting or rejecting the recommendations of the board. It cannot modify them. Part of the determinations may be approved and the rest rejected, or the subject may be recommitted to the old board either in whole or in part or committed to a new board. This authority would seem to give the commission almost complete control over the rates. If all unacceptable rates can be rejected, it would seem that the commission ought to have little trouble in securing the rate it wishes. In fact two boards which recently refused to modify their recommendations have been discharged. These were in the brush industry and the men's clothing industry. The brush board which met in 1922 to revise the old rates, reported a normal rate of \$14.40. After a public hearing, the commission referred the recommendations back to the board on the grounds that they were out of harmony with existing rates. The board voted to return its original findings, whereupon it was disbanded and a new board established. The new board recommended a rate of \$13.92 which the commission has accepted. The case of the men's clothing board was similar. In the latter industry, however, after rejecting the rate of \$14.75 recommended by the board in February, 1922, the commission decided to retain the old rate and did not form a second board at that time. On the

whole, however while the commission undoubtedly has the power to enable it to secure the rate which it wishes, there has been little observable tendency toward arbitrary dictation. In the first decree issued, for instance, the commission said of the 15.5 cents an hour rate recommended by the board:²⁹

The commission is of opinion that eighteen cents per hour is . . . a sum not more than adequate to supply the necessary cost of living and maintain the worker in health. . . . The evidence presented to the wage board and to the commission that the industry is not able to pay higher wages and continue to exist in reasonable prosperity is inconclusive and unsatisfying. . . .

In spite of such dissatisfaction the determinations of the board were approved and issued as a decree. It is certain that other recommendations of the wage boards have been equally disappointing to the commission.

Mention should be made of an outstanding characteristic of these boards, recognition of which is of the utmost importance in understanding some of their recommendations. This is the fact that whatever the framers of the law may have intended the boards as actually set up are not impartial judges to determine what the scientific minima should be, but are essentially wage bargaining conferences between employers and employees. Each group tries to get all it can. The economic strength of each side is reflected in the determinations. Bluff, knowledge of human nature, and other elements of skill in bargaining are not absent, even though these boards are governmental organizations appointed by a state commission. The similarity between these

²⁹ Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women in the Brush Industry in Massachusetts*, Bull. No. 3, p. 12.

wage board conferences and collective bargaining is striking.³⁰

This fact is evident when one follows the procedure of almost any of the boards. The meetings of the brush board, for instance, were very informal. There was much give and take across the table.³¹ The wage situation in the industry as revealed by the commission's investigation was considered first. All members agreed that conditions were deplorable, although some of the employers were inclined to question the validity of the commission's records regardless of the fact that these records were obtained from the employers' own payrolls. It is a rare employer who is willing to admit that the wages in his factory are lower than the wages in the factories of his competitors or in other industries—even though he is claiming at the same time that a proposed new rate will drive him out of business. This concern over low wages augured well for a liberal rate.

The board next attacked the cost of living. Each member attempted to estimate this cost for an unattached woman. Wide differences existed between the budgets of the employers and of the employees, of course. The cost of living was then discussed in detail,

³⁰It is interesting to note that Professor Hammond comes to the same conclusion in regard to the wage boards in Victoria and Tasmania. He calls them "true examples of collective bargaining." M. O. Hammond, "Wage Boards in Australia," *Quarterly Journal of Economics*, Vol. XXIX, p. 360.

Unfortunately for the investigator, the sessions in Massachusetts are private. No outsiders, with the exception of witnesses, are permitted to listen to the deliberations. The reports of the boards give one a good idea of their procedure, however.

³¹Some of the boards are arranged more formally. One of the furnishings boards, for instance, was so arranged that the employers and employees sat facing each other across one table, while the public members sat at a raised table at right angles to the other.

and an agreement reached on each particular. Much valuable time was consumed in higgling over a few cents on most items. A heated discussion occurred as to whether the *Saturday Evening Post* was an extravagance. Further debate arose over the need for a newspaper. Finally, the content of a budget was accepted and the cost of the various items totaled. Although accepting the budget in its particulars, the employers refused to accept the sum total. They now agreed that the industry could not pay a living wage.

The chairman of this board had very idealistic ideas of the function of minimum rates. He was much opposed to cutting the rate below what had been accepted as necessary to meet the cost of living. Nevertheless, the employers refused to pay more than 15.5 cents per hour regardless of the cost of living. One, perhaps the most influential of them all, refused to agree even to this sum. Thus the board divided solidly into two parties, the public and labor representatives joined in asking for a living wage which was only about 18 cents an hour, while the employers insisted on "preserving the industry" by giving only 15.5 cents. The employers seem to have won the contest as the latter rate was recommended. The board did recommend in addition, however, that the rate be raised by the end of the year, although this was not done.

It is obvious that the results of such deliberations must be in large measure compromises. It is inevitable that this should be so. Otherwise no agreement ever would be reached.

The last step in determining the minimum rates is the public hearing held by the commission over the recommendations of the wage board. Required by law, it has become largely a formality. In only a few instances has there been any protest made at these

hearings. At only four hearings prior to 1920 were there strong objections made to the proposed rates. These protests postponed the issuance of the decrees, but seldom changed them. Since 1920 the employers have been making somewhat more use of this opportunity to air their objections. They have had little success, however, in securing modifications of the proposed rates.

It will be helpful to have some idea of the actual rates determined by the Massachusetts wage boards. The following tabular summary presents this information in brief form:³²

³² Compiled from Minimum Wage Commission (statements and decrees concerning the wages of women in the various industries in Massachusetts.) Details of the decrees now in force may be found in Appendix II.

MINIMUM WAGE DECREES ESTABLISHED IN MASSACHUSETTS UP TO JANUARY 1, 1927

Occupation *	Date Effective	Standard Rate
Brush Making (1)	Aug. 15, 1914	15½¢ per hr.
Laundrying (1)	Sept. 1, 1915	\$8.00 per week
Retail Stores (1)	Jan. 1, 1916	8.50 " "
Women's Clothing Mfg. (1)	Feb. 1, 1917	8.75 " "
Men's Clothing and Raincoat Mfg. (1)	Jan. 1, 1918	9.00 " "
Men's Furnishings Mfg. (1)	Feb. 1, 1918	9.00 " "
Muslin Underwear Mfg. (1)	Aug. 1, 1918	9.00 " "
Retail Millinery Shops (1)	Aug. 1, 1918	10.00 " "
Wholesale Millinery Shops (1)	Jan. 1, 1919	11.00 " "
Office and other building cleaning (1)	Apr. 1, 1919	{ 30¢ per hr. for night work, 20¢ for day work
Canning and Preserving (1)	Sept. 1, 1919	\$11.00 per week
Candy Making (1)	Jan. 1, 1920	12.50 " "
Men's Clothing and Raincoat Mfg. (2)	Feb. 1, 1920	15.00 " "
Corset Making (1)	Mar. 1, 1920	13.00 " "
Knitting Mills (1)	July 1, 1920	13.75 " "
Women's Clothing Mfg. (2)	July 1, 1920	15.25 " "
Paper Box Making (1)	July 1, 1920	15.50 " "
Office and Other Building Cleaning (2)	Feb. 1, 1921	{ 15.40 " " or 37¢ per hour
Minor Lines of Confectionery and Food Preparations (1)	Nov. 1, 1921	\$12.00 per week
Women's Clothing Mfg. (3)	May 15, 1922	14.00 " "
Paper Box Making (2)	May 15, 1922	13.50 " "
Retail Stores (2)	June 1, 1922	14.00 " "
Men's Furnishings Mfg. (2)	June 1, 1922	13.75 " "
Muslin Underwear Mfg. (2)	June 1, 1922	13.75 " "
Laundrying (2)	July 1, 1922	13.50 " "
Brush Making (2)	Mar. 1, 1923	13.92 " "
Druggists' Preparations (1)	Jan. 2, 1924	13.20 " "
Canning and Preserving and Minor Lines of Confection (2)	Apr. 1, 1925	13.00 " "
Bread and Bakery Products (1)	May 1, 1925	13.00 " "
Millinery (2)	July 1, 1925	13.00 " "
Stationery Goods (1)	Jan. 1, 1926	13.75 " "
Candy Making (2)	Mar. 1, 1926	13.00 " "
Jewelry Mfg. (1)	Jan. 1, 1927	14.40 " "

* Figures in parentheses denote the number of the decree, whether first, second, or third, for the particular industry concerned.

CHAPTER IV

DETERMINATION OF RATES: METHODS AND STANDARDS

The law in Massachusetts lays down only very general directions for determining the minimum rates. It says that a wage board shall be established if "the wages paid to a substantial number of female employers are inadequate to supply the necessary cost of living and to maintain the worker in health," but it does not direct the wage boards to adopt this standard in arriving at proper minimum rates. The basis for the determination of the rates is given rather in outlining the duties of the wage boards. The law states:³³

Each wage board shall take into consideration the needs of the employees, the financial condition of the occupation and the probable effect thereon of any increase in the minimum wages paid, and shall endeavor to determine the minimum wage, whether by time rate or piece rate, suitable for a female employee of ordinary ability in the occupation in question, or for any or all of the branches thereof, and also suitable minimum wages for learners and apprentices and for minors under eighteen.

Thus we have a double standard—the "needs" of the employees and the "financial condition of the occupation." Let us discuss the procedure of the boards in estimating the first of these—the "needs" of the employees.

The first problem confronting the wage boards in estimating the needs of the workers is to decide whether the rates shall be high enough to meet the cost of living of a girl "adrift" or merely enough to meet the cost of one living with her family. This problem of the living arrangements of the girl whose cost of living is to be made the

basis of the rates is one of the most perplexing questions confronting the boards. How great are the economies of group-living? Does a girl actually need less income if she is living with her family? If so, should her costs be made the basis for the rates or should the greater costs of those living alone be used? If the costs of those girls living in a group economy are adopted, those living alone will not be provided for. If individual-maintenance cost is adopted, the industry may be compelled to pay many workers more than a living wage.

The Massachusetts wage boards have generally settled the problem by considering the standard worker to be one living alone. The nominal standard for the determination of rates has been based on the cost of living incurred by a girl living outside of a group. In fact, the public members of the various boards recently recommended to the commission that no consideration be given the fact that some girls live at home.³⁴ In no single instance has a board recommended a minimum rate based specifically on the cost of living incurred by a girl living with her family. One wonders at the reasons for this practice when he remembers that the great majority of women are living as members of a group. Seven-eighths of the workers whose living arrangements have been studied by the commission are living with their families.³⁵ Because of this fact strenuous

³⁴ The recommendation made at this meeting was as follows: "Regarding a fair basis for the cost of living budget—(1) That the fact that a girl lives at home is not to be considered in fixing a minimum rate." These recommendations have not been published, but are on file at the office of the commission.

³⁵ *Supra*, p. 17.

³³ *Acts and Resolves passed by the General Court of Massachusetts in the Year 1912*, Chap. 706, Sec. 3.

objection has been made to the practice of the boards in basing the budgets on individual-maintenance costs.³⁶

The boards have felt, however, that group-maintenance cost would be an "extremely unreliable"³⁷ and difficult amount to calculate. The different items entering into the total costs of the group would have to be distributed on some "fair accounting basis" among the various members. But where could an acceptable "fair accounting basis" be secured? How many members are there in a typical group? What are the living arrangements of the group? What are the functions of the various members? It may be a family with one or more members doing the housework and the rest working outside, or it may be a group of girls sharing an apartment in a dormitory or working girls' hotel. There are very few data on these questions. It would be hopeless to expect an inexperienced board composed mainly of manufacturers or merchants and working women to make satisfactory estimates.

Furthermore, a standard based on the costs of group living would involve the further problem of whether the

rates should provide for dependency or merely for self-maintenance. Does the law contemplate that the minimum rates should take into consideration the fact that the women may be receiving or giving aid? The law states that the minimum rates shall be sufficient to care for the *needs* of the women. If a woman has children or other relatives relying wholly or in part upon her for their maintenance, should not the minimum wage, therefore, be high enough to provide a living income for her dependents as well as for herself? Likewise, if the women are being partially supported by their parents or husbands, is it not in harmony with the terms of the law to reduce the minimum rate in view of these contributions which they are receiving?

The importance of this problem is evident from the results of the investigations conducted by the commission. Although these investigations are very limited, they tend to show that over one-half—nearly two-thirds in some industries—are contributing to the support of others.³⁸ If this is true, there can be little question that most women *need* a wage higher than that necessary merely for self-maintenance. On the other hand, about one-third of the women do not rely on their own wages for even their own support. The number of women who are neither giving nor receiving aid is thus seen to be relatively small. Those women who give aid out-number those who receive it in the ratio of about two to one. To provide strictly for the *needs* of the workers, therefore, it would seem necessary for the wage boards to make some allowance for the fact that few women are concerned merely with their own support.

The wage boards have, however, consistently refused to make any specific provision for the greater need

³⁶ Mr. Lunt, counsel for the employers, stated to a recent legislative commission investigating the law, "I am contending this is not a correct principle to say that we will estimate the cost of living . . . on . . . those items which [concern] an independent worker . . . and apply that to the eighty-six per cent whose expenses are not so great." (Special Commission on . . . the Minimum Wage, Testimony taken at the seventh hearing. Unpublished manuscript.)

It may also be remembered that one of Justice Sutherland's objections to the law in the District of Columbia was that "The co-operative economies of the family group are not taken into account though they constitute an important consideration in estimating the cost of living, for it is obvious that the individual expense will be less in the case of a member of a family than in the case of one living alone." *Adkins v. Children's Hospital*, 261 U. S. 525, 555-556.

³⁷ Minimum Wage Commission, *Fourth Annual Report*, 1916, p. 20.

³⁸ *Supra*, pp. 18-19.

of those women who have dependents to support as they have failed to recognize the lesser need of those who are being supported. The boards have felt that "justice" to the employer demands that he shall be released from the burden of supporting whatever dependents the women may have. "Justice" to the women demands that the employer shall not be permitted to pay lower wages because of any support the women may be receiving. The statement of the first women's clothing board is illustrative:³⁹

Moreover, it was as unfair to ask the employer to pay the cost of dependents at home as to allow him to profit by parental support, and so it was felt that no distinction should be made between the girl living with strangers and the girl living at home.

The policy of the administration has been expressed by the Acting-Director of the Division of Minimum Wage as follows:⁴⁰

The presumption is that an adult woman of ordinary ability whether she lives in a family group or not should be self-supporting and should be able to make her proper contribution to the family support, if she lives in the family group. Or she should be able to support herself entirely if she lives outside the family group.

By basing the rates on individual-maintenance costs, the boards obviate the necessity of making special provision for support either received or given. A girl living alone ordinarily is supporting herself and only herself. Furthermore, to the extent that the women are using their wages to support dependents, the financial advantages of group living are reduced. The cost of

living of the independent women may be indicative of the actual needs of those living with their families. By basing the rates specifically on individual-maintenance costs, the boards have met the needs of those women who have the heaviest burden to bear for themselves alone. It is possible that the rates may have been in harmony with the needs of a larger number of women than if any other basis had been used.

It is also true that some boards have taken the position that the economies of group living are not important. It has been felt that the costs of the eighty-seven per cent of the women who live in a family group estimated on an actuarial basis are not necessarily less than individual-maintenance costs which have been taken as the standard. The first brush board, for instance, concluded that the difference between the costs to one living with a family and one living independently is⁴¹

less than is generally supposed. The personal items are the same in each case. . . .

Where girls room together there may be some saving in room rent. In no other item is there any substantial saving, and there is often an increase of fatigue which overbalances any possible money economy.

It should not be assumed, however, that the possible economies of group living have had actually no effect on the rates recommended. It may be remembered that it was stated at the beginning of this discussion that the *nominal* standard was the costs of a girl living alone. As a matter of fact, rates based on unequivocal individual-maintenance costs have seldom been recommended. Whatever the supposed basis, the boards proceed largely by rule of thumb methods. The fact

³⁹ Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women in Women's Clothing Factories in Massachusetts*, Decree No. 4, p. 3.

⁴⁰ Special Commission on . . . the Minimum Wage. Testimony taken at the first hearing. Unpublished manuscript.

⁴¹ Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women in the Brush Industry in Massachusetts, 1914*, Bull. No. 3, pp. 20-21.

that most girls do live in groups has had some influence on the recommendations of the boards, even though the boards have usually rejected this standard. There are many opportunities in drawing up the budgets for the employers to secure the lower of two proposed amounts on the grounds that the budget is higher than the needs of eighty-seven per cent of the women. Furthermore, information laid before the wage boards pertaining to actual costs and prices is based largely on conditions in semi-co-operative establishments such as the Franklin Square House. Practically all wage

board members with whom I have talked state that their estimates have taken into consideration the fact that they were basing the budget on costs which presumably were higher than what most women incur.

Having chosen the type of individual whose cost of living is to be the standard, there remains the problem of determining the various items comprising the cost of living to this woman. This means the construction of a budget. Not all of the boards have constructed itemized budgets, however. In some cases the cost of living has been recognized to be more than the

THE COST OF LIVING AS ESTIMATED BY WAGE BOARDS IN MASSACHUSETTS

Industry	Time	Amount
Brush	January, 1914	\$8.71
Candy	Summer, 1914	8.75
Laundry	January, 1915	8.77
Women's Clothing	Spring, 1916	8.98
Men's Clothing	Spring, 1917	10.00
Men's Furnishings	Summer, 1917	10.45
Muslin Underwear	January, 1918	9.65
Retail Millinery	Spring, 1918	11.64
Office Cleaning	Spring, 1918	11.54
Wholesale Millinery	Fall, 1918	12.50
Canning and Preserving	Spring, 1919	11.00
Candy	Spring, 1919	12.50
Corset	Fall, 1919	13.00
Men's Clothing	Fall, 1919	15.00*
Knit Goods	Fall, 1919	15.30
Women's Clothing	January, 1920	15.25
Paper Box	Spring, 1920	15.50
Office Cleaning	Winter, 1920	15.40*
Minor Lines of Confectionery	Spring, 1921	13.50
Retail Store	Winter, 1921	14.00*
Women's Clothing	January, 1922	14.00
Muslin Underwear	Spring, 1922	13.75
Laundry	Spring, 1922	13.92*
Brush	Fall, 1922	13.92
Druggists' Preparations	Summer, 1923	13.20
Canning, Preserving, and Minor lines of Confectionery	Fall, 1924	13.50
Millinery	Winter, 1924	13.90
Bakery Products	Winter, 1924	13.00
Stationery Goods	Summer, 1925	13.75
Candy	Fall, 1925	13.00
Jewelry	Summer, 1926	14.95

* Estimated by applying the increase in the cost of living to an earlier budget.

industry could pay anyway, and the task of the wage board has been to determine the latter amount rather than to draw up an elaborate budget. In the case of several reconvened boards new itemized budgets have not been constructed. The old one has been accepted as accurate at the time it was drawn up, and it has been increased in proportion to the increase in the cost of living. This, of course, intensifies any inadequacy in the old budget.

What success have the boards attained in calculating the cost of living of an independent woman? The table on page 28 sets forth the estimates that have been made.⁴²

It is difficult to estimate the worth of these budgets. This is especially true in respect to content. No dogmatic statement can be made with accuracy as to what the budget for a working-woman should contain. Most of the Massachusetts budgets have provided for the following: board, lodging, clothing, laundry, carfare, health (doctor, dentist, etc.), church, savings, vacation and recreation, and newspapers and magazines. The public members of the wage boards at their recent conference recommended that additional allowances should be made for emergencies and incidentals.⁴³ Whether it is true or not that all these should be included, it is true that many of the budgets as drawn up by the Massachusetts wage boards have omitted several important items. The first three, for instance (the brush, candy and laundry boards), made no provision for savings, incidentals, organization dues, insurance, "self-

improvement," or benefit associations. The budget drawn up by the muslin underwear board made no provision for newspapers, magazines or other forms of self-improvement, vacation or recreation, savings or insurance, although a large item for incidentals would have counteracted these omissions somewhat. The item for insurance has been omitted from most budgets.

It may not be worth while to criticise these budgets because of the omission of particular items. After all, it is the total that is of primary importance, not the separate items. The omission of one may be counteracted by the inclusion of a too large amount for another. Confining our attention to the totals, what can be said of the accuracy with which the cost of living has been reckoned?

In comparing these budgets with one another, our attention is immediately struck by the different amounts estimated by the various boards. The budget drawn up by the muslin underwear board in January, 1918, amounted to only \$9.65, although about six months earlier, when the cost of living was undeniably less, the men's furnishings board had constructed a budget of \$10.45. The canning and preserving board agreed that \$11.00 accurately measured the cost of living in the spring of 1919, although in the fall of 1918 it had been estimated by another board as \$12.50. The candy board, also reporting in the spring of 1919, arrived at a budget of \$12.50. The budgets reported by the corset board and the knit goods board, both in the fall of 1919, amounted respectively to \$13.00 and \$15.30, a difference of \$2.30. The minor lines of confectionary board agreed on a budget less by \$2.00 than the budget of the paper box board, although they were constructed at the same time.

⁴² Taken from the various *Statements and Decrees* issued by the commission. See Appendix III.

⁴³ These recommendations are on file at the offices of the commission. They have not been published.

It is true, of course, that the cost of living for women does vary between different industries. A sales-girl requires a different budget than that of a laundry worker or a building cleaner. Nevertheless, it does not seem that the difference in the necessary costs borne by girls in similar industries (in canning and preserving factories and candy factories, for instance) is sufficient to warrant the differences in these budgets. As one paper box manufacturer complained:⁴⁴ "If the minimum wage is based on the cost of living, I would ask why it costs so much to live in my factory and so much less to live in a factory across the street."

It is evident, therefore, that the boards have not been in agreement in constructing budgets. One cannot, however, point out definitely the faulty ones and estimate the extent of their inaccuracy. They concern a very limited class of people—limited as to place, time and needs. The obstacles which have hindered the boards in attaining scientific accuracy also hinder us in judging their conclusions.

Let us consider in more detail the item of food and lodging, the most important in the budget. The procedure of the boards here is indicative of their procedure in computing the cost of other items. Three boards agreed in allotting \$8.50 to this item in the fall and winter of 1921.⁴⁵ The most important evidence that caused the boards to arrive at this sum consisted of information submitted by the minimum wage commission. Among such material was information concerning room rents and meal prices in leading cities in the state, statistics of price changes,

and the conclusions of other boards. Board members usually consult individual employes and conduct private investigations on their own initiative, but such sources of information are unreliable and are usually of little importance.

It was found that in boarding and lodging houses conducted by the Young Women's Christian Association, the smallest amount for which one could get room and meals was \$7.50. This sum rented a share in a small double room and paid for meals at the cafeteria. Only a few girls could be accommodated at this price. The majority would have to pay \$9.00 or \$10.00. At the Franklin Square House, a Boston working-girls' hotel accommodating about 700, the lowest amount for which one could get room and board was also \$7.50. The average was at least \$9.00. The situation in similar establishments in other cities was about the same.

Comparatively few girls can live in such places, however. The great majority obtain accommodations in private homes and restaurants. From various room registries it was learned that the cheapest room rent was not less than \$3.00. This was for a share in a small double room, in many cases with no heat. To obtain any degree of comfort would require \$1.00 more. The cheapest restaurants would supply meals at \$7.00 a week. This is only 33 cents a meal—not much for a working girl. For a girl renting a room in a private house or tenement and eating in restaurants, therefore, the irreducible minimum was not less than \$10.00. Board as well as room in private homes was slightly less. The \$8.50 allotted to the items of board and lodging was less than what most girls living alone would have to pay. Even remembering that most girls do not live alone, it is evident that these wage boards, and they are

⁴⁴ Special Commission on . . . The Minimum Wage, testimony given at the second hearing. Unpublished manuscript.

⁴⁵ These were the boards for the minor lines of confectionery, women's clothing, and muslin underwear industries.

typical of all, give very inadequate estimates. Estimates of other items in the budget are equally meager. No attempt to provide a standard of comfort is made, merely a standard of subsistence.

The budgets in Massachusetts and the rates that have been determined on the basis of these budgets have made no provision for seasonal unemployment.⁴⁶ The budgets have provided only enough for the worker who has had constant employment and has received the amount named regularly and without fail. Vacations, of course, have been considered. Employment for this type of worker is extremely irregular. The actual earnings of the women must frequently fall far below the amount contemplated by the wage board. This is indicated by the great difference that exists between scheduled rates and actual earnings as shown by the results of the commission's investigations.⁴⁷ Consider for example the situation in retail stores. The investigation of the commission showed that prior to the decree fifty-two per cent of the women were *scheduled* to receive rates of \$8.00 or more, but only thirty-four per cent actually earned this sum as an average wage for the weeks they worked.⁴⁸ This industry is by no means extreme. The clothing industries, the candy or millinery industries show the effects of unemployment to

be even more pronounced. An official minimum rate does not mean that the women will always earn that rate as an average weekly wage.

It is true that the wage boards have considered the problem. It is probably even true that seasonal unemployment has had some effect on the rates recommended. The women's clothing board observed, for instance, in its first report,⁴⁹

The budget which had been accepted contemplated employment for fifty-two weeks in each year. It made no provision for unemployment—so great in this industry because of seasonal irregularity . . . Since the board decided to fix the minimum rate at not more than \$8.75—less than the accepted budget—it became unnecessary to consider the very substantial increase that must be made if the expenses of unemployment were added to the budget. It was this consideration of unemployment, however, which blocked any further revision downward and eventually won the day for the rate recommended to the Commission.

It is also true that in a few cases the item of savings could be used to tide over periods of unemployment. This item, however, has seldom been large enough to maintain the worker during a long period of idleness. It is intended to be used for sickness and old age rather than unemployment. The problem of seasonal unemployment can be solved perhaps only by legislation providing for unemployment insurance or other measures. Nevertheless, the minimum rates might well reflect the circumstance of much unemployment.

From the manner in which the wage boards in Massachusetts have handled this problem of constructing budgets, one becomes somewhat skeptical of the actual importance which the cost of

⁴⁶ The number of hours worked per week have been considered of course. Most decrees have stated, "These rates are for full time work, by which is meant the full number of hours per week required by employers and permitted by the laws of the Commonwealth." The decree for the office cleaning industry shows a more liberal viewpoint. It fixed an hourly rate on the express understanding that the majority of the women were ordinarily employed only 36 hours per week.

⁴⁷ *Supra*, chap. II.

⁴⁸ Minimum Wage Commission, *Wages of Women in Retail Stores in Massachusetts*, 1915, Bull. No. 6, pp. 38-39.

⁴⁹ Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women in Women's Clothing Factories in Massachusetts*, Decree No. 4, p. 5.

living plays in determining rates. It is, certainly, a good talking point for one side or the other, usually the employes, but it does not seem to be much else. The members of the wage boards have too much at issue to be impartial judges. Their estimates of the various items in the budget are inevitably influenced by their interest in the amount of the rate.

An interesting if somewhat extreme example of the influence which the cost of living has had in determining rates was given by the men's furnishings board in 1922.⁵⁰ The board had been in session for six weeks when it became deadlocked with the employes insisting on a budget of \$16.89 and the employers insisting on one of only \$11.47. A sub-committee was appointed to effect a compromise but was unsuccessful. The employes agreed to lower their estimate only to \$16.50, and the employers agreed to raise theirs only to \$13.75. The chairman then disregarded the cost of living as measured by existing prices. He tried to secure an acceptable estimate assuming that the old budget was right at the time it was drawn up and applying to it the increase in the cost of living since that time. This gave a figure of \$15.69. The employes agreed to this sum but the employers refused. As the chairman wished to secure representation from all parties on the board this estimate was reduced still further. After much persuasion a majority of the board, including one employer, accepted \$15.00. This representative of the employers later changed his mind and refused to sign a report embodying this rate. The board was

⁵⁰ Cf. Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women Employed in the Manufacture of Men's and Boys' Shirts, Overalls and Other Workingmen's Garments. Men's Neckwear and Other Furnishings, and Men's, Women's and Children's Garters and Suspenders*, Decree No. 23.

again deadlocked. Another arbitration committee was appointed which accepted a minimum rate of \$12.50. This was less than the employers themselves had previously agreed was the cost of living. However, the report of the arbitration committee was refused by the employers when presented to the whole board. They insisted not only on a \$12.00 rate, but also on the inclusion in their report of a statement to the effect that this rate was justified by the cost of living. This, of course, was entirely unacceptable to the employes. The public members eventually persuaded six employes and two employers to agree to \$13.75. This was the rate finally recommended. The board consumed nearly 20 months in estimating the cost of living and then adopted a sum which no one claimed was a reflection of this cost. The history of this board was an example of bargaining strength, not of scientific or even sincere inquiry into the cost of living.⁵¹

Invariably there is a difference of several dollars between the estimates of the employers and those of the employes. There is no definite idea of what constitutes the necessities of life nor of what the costs of these are. The experience of the War Labor Board, of the Railway Labor Board, as well as of state minimum wage boards leads to the opinion that the cost of living, while a laudable ideal for regulating wages, is not a very practicable standard.

An objection might be made to the methods of calculating the cost of living adopted by the Massachusetts wage boards on the grounds that the result is largely a reflection of what the women actually have lived on. It represents the existing cost, not the desired cost.

⁵¹ Cf. also the discussion in the preceding chapter of the procedure of the first brush board, pp. 22-23. Many boards, it should be stated, have made sincere efforts to estimate the cost of living.

Attempts are made to ascertain empirically what the women actually do live on. As the women must in the long run make their expenses conform to their wages, a minimum rate based on the cost of living as estimated by the boards tends to approach the old rates.

Another practice of the Massachusetts wage boards has subjected the law to much criticism. This is the failure of the boards to recommend that the minimum rate be the amount estimated in the budget as necessary to meet the cost of living. The rates have frequently been less than this cost. As we have already noted, the Massachusetts law sets up a dual standard for the determination of rates. One is the needs of the women workers; the other is the financial condition of the industry. Sixteen decrees have recommended standard rates less than

the amount of the budget because of the alleged poor financial condition of the industry as shown below.

Here we have some fourteen occupations which, in the opinion of the wage boards, have been unable to pay their employees a living wage. What is the reason for this? Is it due to an unusually poor financial condition of Massachusetts industry? Or is it due simply to the superior bargaining power of the employers? The latter seems to be the more accurate explanation. The boards have seldom insisted on definite evidence that a proposed minimum wage will affect an industry adversely. The following quotation from the report of the minor lines of confectionery board shows the type of evidence offered:⁵²

⁵² Division of Minimum Wage of the Department of Labor and Industries of Massachusetts,

DECREES WHICH HAVE RECOMMENDED RATES LESS THAN THE COST OF LIVING IN MASSACHUSETTS

Decree	Amount of Budget	Rate Recommended
First Brush	\$8.71	\$8.37*
First Laundry	8.77	8.00
First Retail Store	**	8.50
First Women's Clothing	8.98	8.75
First Men's Clothing	10.00	9.00
First Men's Furnishings	10.45	9.00
First Muslin Underwear	9.65	9.00
First Retail Millinery	11.64	10.00
First Wholesale Millinery	12.50	11.00
Knit Goods	15.30	13.75
Minor Lines of Confectionery	13.50	12.00
Second Men's Furnishings	***	13.75
Second Laundry	13.92	13.50
Canning, Preserving, and Confectionery (combined decree)	13.50	13.00
Millinery (combined decree)	13.90	13.00
Jewelry	14.95	14.40

* The brush decree fixed an hourly rate of 15.5 cents. If the women worked the full legal minimum at that time of 54 hours per week, their weekly wages would have been \$8.37. As a matter of fact, over half of the women worked less than 46 hours per week. This would make a still greater discrepancy between the budget and the rate recommended.

** The cost of living was determined to be as much and probably somewhat more than the minimum rate.

*** This board could not agree on a budget at all. It refused to accept the rate recommended as indicative of the cost of living. (See p. 32.)

The members of the board chosen from the employers were emphatic in their case that the industry could not afford a minimum wage fixed at \$13.50 for the adult, experienced worker. But the evidence on this subject proved difficult to secure. Employers, either from inadvertence or lack of interest, failed to respond to questionnaires which were sent out. The most impressing evidence of the financial condition of the industry was the number of factories which were not hiring help, even at the existing low wages, but which preferred to be idle or nearly idle rather than operate at a greater loss.

In spite of much study, the women's clothing board stated,⁵³

It was felt that no general conclusions about the financial condition of the industry could be drawn from these data. Although the board's investigators visited a number of centers within and without Massachusetts, and investigated many establishments, the results were too slight for sound general deductions.

The board goes on to say that so far as its investigations had yielded any facts, it did not appear that the contemplated rate based on the budgetary amount would impose an additional labor cost sufficient to handicap the industry seriously. Nevertheless, the board did depart from its estimates of the cost of living when making its recommendations. The only reason for this was stated in the board's own words as follows:

Statement and Decree Concerning the Wages of Women Employed in the Minor Lines of Confectionery and Food Preparations Occupation in Massachusetts, Decree No. 19, p. 3.

One of the chief reasons for the recommendation by this board of a rate less than the estimated cost of living was the fact that one of the employer representatives went into bankruptcy while the board was in session. This convinced the other members that the industry was in a bad way.

⁵³ Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women in Women's Clothing Factories in Massachusetts*, Decree No. 4, pp. 3-6.

The board felt that the proposed minimum wage of \$8.98 was so far above the wages now paid in certain occupations in some establishments that a too abrupt change might occasion considerable hardship both to employers and employees during the period of readjustment.

As a matter of fact, it is almost impossible to determine whether or not an industry can bear an increase in wages and still show a profit. The increase in the labor cost per unit of product is unpredictable. The amount of this increased cost which can be passed on to the public with no decrease in the volume of sales is equally uncertain. As an investigator of the Federal Bureau of Labor Statistics has observed;⁵⁴

The basis of the conclusions of the wage boards is rather the general returns by the commission and the State labor office than any specific representation by employers. Either inadequate or incomparable accounting methods, or reluctance to give information relating to the industry made it impossible for the investigators to arrive at conclusions as to the financial condition of some of the industries.

Mr. Lawrence Brooks, counsel for the War Labor Board and chairman of the men's furnishings board, remarked to the Recess Commission that the chairmen of some twelve wage boards had unanimously agreed that in no single case had the employers "backed up their statements with facts."⁵⁵

Occasionally, the boards have recommended rates lower than their budgets as a temporary expedient because of some unusual disturbance in the industry. Unfortunately, the temporary nature of the rate has been forgotten.

⁵⁴ U. S. Bureau of Labor Statistics, *Minimum-Wage Laws of the United States: Construction and Operation*. Bull. No. 285, p. 121. Lindley D. Clark, author.

⁵⁵ Special Commission on . . . the Minimum Wage. Testimony taken at the fifth hearing. Unpublished manuscript.

The board for the men's clothing and raincoat trades, for instance, reported in 1917 that the industry could not bear a wage equal to the cost of living.⁵⁶ However, the conditions were

'so abnormal and so likely to be temporary that the recommendation of a \$9 minimum wage is made with the express understanding that the conclusions of the Board are but tentative, and that it should in all probability be revised by subsequent procedure, in order that hardship either to employers or employees shall not result.'

This rate was not actually revised, however, until 1920.

It is difficult to defend a practice which gives so much prominence to the financial condition of the industry. In no case has an employer been injured to such an extent as to take advantage of the provision of the law which enables him to go to court and have the rate annulled if he can show that it prevents him from making a reasonable profit. It should also be noted that the statute does not definitely prescribe that the rates are to be lowered if the industry is not in a profitable condition. It simply states that the wage boards shall "take into consideration"⁵⁷ the financial condition of the industry and "the probable effect thereon of any increase in the minimum wages paid." As a matter of fact, the boards would probably do this whether the law directed them to or not.

Not all of the boards have been willing to admit that a living wage will have a harmful effect on the industry. The later boards in particular have generally refused to depart from their budgets.⁵⁸ Only six of those report-

⁵⁶ Minimum Wage Commission, *Fifth Annual Report*, 1917, p. 14.

⁵⁷ *Acts and Resolves passed by the General Court of Massachusetts in the Year 1912*, Chap. 706, Sec. 3.

⁵⁸ The board for the office cleaning industry was one of few early boards to disregard the employers' claims. This board believed that "only a fundamental readjustment of the

ing since 1918 have done so. In part this is due to the recognition by the employers that a proposed rate will not affect them adversely. In part it is due to an insistence by other members of the board on stronger evidence. The readiness of the earlier boards to accept mere statements of the employers caused the commission to direct the boards in 1919 to "require definite evidence in case the claim is made that the industry cannot stand a living wage."⁵⁹

As a matter of fact, the financial condition of the industry, like the cost of living, serves mainly as a talking point in the deliberations of the boards. No definite sum on which to base the rates can be evolved through a consideration of the industry. It has about the same effect as a standard based on the wages paid by the most reputable employers. If the cost of living points to a rate below those paid by some of the employers, the latter's representatives will have little success in persuading the board to agree to a reduction on the grounds that the industry is not able to pay a living wage. If no one in the industry is paying a proposed rate, the bargaining position of the employers is thereby strengthened.

The Massachusetts law, like the English law, permits the establishment of piece-rates rather than time-rates at the discretion of the wage boards. No piece-rate has even been recommended. In view of the fact that in most industries a majority of the women are employed on a piece-rate basis, this may appear surprising. The reasons

financial status of office buildings would solve their financial problems." (Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women Employed as Office and Other Building Cleaners in Massachusetts*, Decree No. 10, p. 2.)

⁵⁹ Minimum Wage Commission, *Wage Boards and Their Work*, p. 9.

are two-fold. In the first place the various tasks are not sufficiently standardized to permit the establishment of uniform piece-rates covering all firms. This is true of practically every industry. Methods of organization, subdivisions of the productive processes, and consequently the operations performed by each employe, vary extensively from locality to locality and from firm to firm. The reorganization of many of the factories that would be necessary to the creation of piece-rates would not be tolerated by the employers, nor if it were, could it be competently performed by the wage boards or the commission. Neither time, money nor experience fit the administrators of the law for such an undertaking.

In the second place the establishment of piece-rates is not essential to the prime objects of minimum wage legislation. The purpose of the minimum wage must be to afford an income sufficient to meet the cost of living. It is the duty of the individual employer to see that his piece-rates are high enough to meet the time rates set by the wage boards as the requisite sum. It does not seem necessary for the administrative body to interfere in this matter.

One of the most troublesome problems in the determination of minimum rates is the fixing of special rates for the young, the inexperienced and the defective workers. Especially is this so in regard to the first two classes. Does the fact that a worker is untrained justify giving her less than a subsistence wage? Or, as a matter of fact, can she live on a smaller wage than her more experienced sister? How long does it take a girl to become "experienced" in any given trade? If a woman changes her occupation should she be expected to take a lower wage? These are some of the questions that confront

the wage boards in recommending special rates for the young and the experienced workers.

The law in Massachusetts does not establish any definite standard to guide the wage boards in this matter. The term "experienced" does not appear at all. It simply directs the boards to determine "suitable minimum wages for learners and apprentices and for minors under eighteen."⁶⁰ The wage boards have found it necessary not only to recommend special rates for this group, but also to prescribe the length of the apprenticeship period and the ages to which the special rates apply. The result has frequently been that these periods have been too long, the rates too low, and too few safeguards have been granted against abuses. In only one industry, building cleaning, have the beginners been given the same rates as the others. In the other industries rates for apprentices have been as much as \$8.00 less than the normal rate. Apprenticeship periods have extended from nine months to two years. The most common time is one year.⁶¹ Contrast this practice with the treatment of the problem in Wisconsin, where no learning period was required for seasonal industries and the learning period in laundries was fixed at four months; with Oregon where the millinery apprenticeship was limited to thirteen months; with the order of the National War Labor Board reducing the learning period for laundry workers in Little Rock from six to three months. One would be led to believe that it requires a longer time to learn a trade in Massachusetts than in other places.

⁶⁰ *Acts and Resolves passed by the General Court of Massachusetts in the Year 1912*, Chap. 706, Sec. 3.

⁶¹ The provisions of the decrees relative to apprentices and minors can be seen in detail by consulting the list of decrees in App. III.

In most industries the minors, regardless of the amount of experience they may have had, are granted lower minimum rates than mature persons. This has been justified on the grounds that almost all of these younger workers were living with relatives. The investigations of the commission have shown that the wages paid to those below eighteen are generally less than the wages of the older women. It has seemed wise to continue this differential.

In industries in which the learning period is important in mastering the trade it is probably necessary to permit a graduated scale of rates. Otherwise the training of the beginners will be made too costly for the employer. It is also true that high rates for young workers would tend to draw children into the factories. The solution of the latter evil, however, is a child labor law. The commission has encouraged the wage boards to shorten the apprenticeship period and to eliminate too abrupt jumps in the rates. It is being done only gradually, however. The laundry decree of July 1, 1922, shortened the apprenticeship period from one year to five months.

Arbitrary regulation of the apprenticeship period is naturally too inflexible to be very satisfactory. Standardization of these workers is not possible. A girl, for instance, who shifts from one industry to another must be regarded as an inexperienced worker under the Massachusetts practice and her new employer consequently has the right to pay her a smaller wage. This worker may be just as efficient in her new job as an experienced worker. A girl who has been trained in the retail millinery occupation is more or less experienced in the wholesale millinery occupation as well. A girl who has been trained to operate a sewing machine on women's clothing can operate a ma-

chine nearly if not quite as well on men's clothing. Likewise, a girl still remains "experienced" so long as she remains in an industry regardless of the number of times she changes tasks. A girl who has spent sixty-seven weeks in the candy industry is deemed to be "experienced" if she has done nothing but paste labels. She can demand the full normal rate even if she is shifted to a semi-skilled task. Another drawback of the Massachusetts law is that it fails to provide any restrictions against the exploitation of apprentices and minors. The number of learners has never been limited as it has been in Wisconsin, North Dakota, Kansas, District of Columbia, and California. With such a long learning period as the Massachusetts practice gives, it is important that a manufacturer be prohibited from filling his factory with girls technically learners.

The problem of the defective has shown itself to be much simpler than that of the apprentices. It is not a problem with which the wage boards are concerned, to be sure, but as it is analogous to the problem of special treatment for the young and inexperienced workers, it should be mentioned here. There are no restrictions on the commission in the granting of licenses to the physically defective—those workers who cannot earn the standard wages and yet do not come into the category of learners or beginners. The law does state that licenses can be granted only in those industries "in which a minimum time rate only has been established."⁶² As all of the occupations come within this class, the commission has its hands free to permit any worker to accept less than the legal minimum wage. It might be expected that a tendency

⁶² *Acts and Resolves passed by the General Court of Massachusetts in the Year 1912, Chap. 706, Sec. 6.*

would have resulted to issue these permits indiscriminately and profusely. On the contrary the commission has granted relatively few licenses. The small number of licensed defectives in Massachusetts is explained in part by a practice which the commission has adopted of classifying certain workers as belonging to a "special license type." These are subnormal women who have not been given a license. Certain other workers come under the "piece-rate ruling." These women occur in certain industries or branches of industries in which most workers are on piece-rates. If a few women are unable to earn enough to make the weekly minimum rate which is earned by the great majority of women, the commission assumes that those who do not earn it are defective. The commission has found it undesirable to compel all sub-normal women to submit themselves to an examination, although no extensive medical examination has ever been required in Massachusetts, merely an inspection by some member of the administration. Most women feel the degrading implications of being a licensee so keenly that they tend to drop out of the occupation and drift to other employment rather than apply for a license. Even with these non-licensed defectives the number of women earning less than the legal minimum rates is small. Since 1918 about 550 women have been permitted to accept rates less than the minima. Only about one-fourth of these have actually been granted licenses. Another fourth are working under the "piece-rate ruling." The remainder are considered to be of the "special license type."

A frequent objection to the Massachusetts law has been that it does not provide for different rates within the same occupation for different sections

of the state as do the laws of Arkansas and Minnesota. The employers of establishments in the smaller cities and country districts maintain with some justification that the cost of living is less in their localities than in the large cities. They lose the competitive advantage of a lower wage scale. The Recess Commission, already mentioned, considered the problem at some length, but did not believe that provision for regional variation in rates should be made. As to the extent to which the cost of living does actually vary, the Minimum Wage Commission has said;⁶³

The index numbers on the cost of living issued by the Commission on the Necessaries of life do not show such a wide variation in different sections of the state as is popularly assumed to exist. The investigations made by the agents of the Minimum Wage Commission also indicate that the variation is not pronounced. There are some compensating factors that tend to reduce the difference. For instance, employees in large cities have the advantage of bargain sales, the use of clinics for medical and dental care at nominal charges, and opportunity for self-improvement through public courses.

In so far as the view of the commission is correct there is, of course, no justification or necessity for different rates for different localities.⁶⁴ Furthermore, such variation in rates would add greatly to the complexity of administration.

⁶³ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts. Material submitted to the Recess Commission. Unpublished manuscript.

⁶⁴ Even though the cost of living does vary throughout the state, there are other reasons for not granting lower rates because of the lower cost of living in small towns. As we have seen, the rates do not in all cases meet the cost of living anyway. Because the rates cannot be set high enough where they should be, is no reason for lower rates elsewhere.

CHAPTER V

COMPLIANCE WITH THE MINIMUM RATES

Before we take up the question of results of the law, we should consider the degree to which the rates have been accepted by the employers. Obviously a rate which is not complied with can have little effect on wages. As the Massachusetts law does not provide for compulsory observance of the rates, this question of compliance is of peculiar significance. With a mandatory law acceptance of the rates would be largely a matter of course. With a recommendatory law, a wide field of possibilities is opened up.

It should be noted that non-compliance does not mean necessarily a deliberate refusal to pay the designated rate. An employer cannot tell except by trial and error whether a certain piece-rate will yield enough to enable most workers to earn the minimum. Furthermore, an employer may believe that a particular worker is subnormal or that she is subject to another and lower decree—such as formerly might have been the case with a woman working in a millinery shop which catered to both the wholesale and retail trade. Consequently, while first inspections oftentimes show considerable lack of acceptance of the rates, in most cases these non-compliances are ironed out to the satisfaction both of the administration and of the employers. Frequently, employers can be prevailed on to increase the wage rates without further ado.

The extent to which the minimum rates were accepted prior to 1919 cannot be determined very well because of the refusal of many employers to permit an inspection of their books. It has only been since the court decision of 1918 affirming the constitutionality of the law that the commission has had

adequate power to inspect for compliance. Those employers who did consent to an inspection were generally complying, as one would expect. The laundry industry was the only one, however, in which the commission was forced to give up all attempts at inspection. Most other employers permitted their books to be inspected. In only two industries was any large number of non-compliances discoverable. These were brush making and retail selling.

The decree for the former industry became effective August 15, 1914. It recommended a standard rate of fifteen and one-half cents an hour. The first inspection to determine compliance showed that five of the nineteen factories included in the inspection were not meeting the minimum rate.⁶⁵ Only eighteen women were receiving less than the decreed amount. Instead of publishing the names of the recalcitrant employers, the names of the "good" employers were published. The commission did not resort to the blacklist because of fear that the commissioners would be personally liable if the law were declared unconstitutional. This publication of names apparently had some effect as the second inspection disclosed only three firms which were still refusing to pay the minimum rate.

The first retail store decree became effective January 1, 1916. It recommended a rate of \$8.50. On February first a systematic inspection of payrolls was begun.⁶⁶ Inspections were

⁶⁵ Minimum Wage Commission, *The Effect of the Minimum Wage Decree on the Brush Industry in Massachusetts*, 1915, Bull. No. 7, *passim*.

⁶⁶ Minimum Wage Commission, *Preliminary Report on the Effect of the Minimum Wage in Massachusetts Retail Stores*, 1916, Bull. No. 12, *passim*.

made of 955 establishments employing over 16,000 female workers—nearly two-thirds of the total number of women store employees in the state. In all the stores studied about six per cent of the total number of women covered by the inspections were receiving less than the rates decreed for them. The 112 storekeepers employing these women had made little effort to put the recommended rates in force. These establishments included a few department stores but in the main were five-and-ten-cent stores and small neighborhood stores.

One would think that the commission was justified in blacklisting these 112 employers. That such was not done is an illustration of the caution with which the administration was proceeding during these first few years. As in the brush industry, the commission resorted not to a blacklist, but to a "whitelist," to encourage acceptance of the minimum rates. The names of all store employers complying with the rates were published. If an employer had only partially complied this fact was also recorded. The results of this attempt at coercion were not so satisfactory as in the brush industry. The employers were still slow to raise their wage scales. In fact it was not until the general increase in prices and wages that these cases were settled. The commission was very pessimistic over the situation. In its annual report for 1916 it observed.⁶⁷

. . . It is greatly to be regretted that a few proprietors of retail stores in Massachusetts have chosen to ignore the Commission's recommendations. Apparently many of these proprietors are operating stores in which the wages of the female employees were below the average in 1914 when the Commission made its first investigation. . . . The Commission enter-

tains no hope that these proprietors will voluntarily forego this unfair advantage and accept the schedule of minimum wages now followed by their competitors.

It had not taken long to show that a law which depends entirely upon arousing public opinion would have a difficult task in enforcing the minimum rates. The commission made at this time the first of its many recommendations for a mandatory law.

In 1919 inspections were made or completed in all industries under decrees. The payrolls of over 1000 establishments were inspected. Records of nearly 25,000 women were secured. Only 196 cases of non-compliance, less than one per cent, were found. Certainly, this record seemed to vindicate the efficacy of a recommendatory law.

Not only was the number of non-compliances in 1919 relatively small, but most of them could also be easily and satisfactorily adjusted. Of the 196 cases, 130 were settled through wage increases. Forty-two workers were considered to be defective. These were not given special licenses, but were classified as of the "special license type."⁶⁸ Twenty-two women left the employ of their respective concerns. A few of these might have been discharged. The other two women were employees of insolvent firms and for this reason were not disturbed.

Since 1919 the story is different. The task of securing compliance has become increasingly difficult. So difficult, in fact, that the existence of the law has been jeopardized. Even the commission has mentioned the possibility of the law becoming "meaningless."⁶⁹ In 1920 agents of the commission visited 1126 establishments,

⁶⁸ *Supra.*, pp. 37-38.

⁶⁷ Minimum Wage Commission, *Fourth Annual Report*, 1916, p. 18.

⁶⁹ Special Commission on . . . the Minimum Wage, *Exhibits Submitted by the Division of Minimum Wage*. Unpublished manuscript.

securing records of 23,349 women and girls.⁷⁰ A total of 983 cases of non-compliance were found during this year. Nearly two-thirds of this number were adjusted satisfactorily. Wages were increased for 366 women, more than half of the number of adjustments.⁷¹ A number of women left the employ of their firms but the commission believed that the great majority of them left voluntarily. Only twenty women were clearly discharged because of their inability to earn the minimum rates. The remaining cases of non-compliance, 301 in number, were not settled in 1920 at all. The worst offenders this year were found in the candy, women's clothing and paper box industries.

As the industrial depression deepened and as many decrees were revised upward to more nearly approximate the cost of living, the task of securing compliance became still more difficult. In 1921, 658 cases were discovered in addition to those pending at the close of the previous year.⁷² The inspections of 1921 covered 14,690 women. A total of ninety-nine firms were found to be paying less than the prescribed minima. All but 200 cases were settled, however. Wage and hour changes were made for 374. Seven were considered to be defective. Ninety left

voluntarily or were discharged. Two hundred and sixty-six were in firms advertised. Twenty-two were covered by the "piece rate ruling."⁷³

The most serious difficulties were encountered in the building cleaning and paper box industries. A total of 727 cases of non-compliance arose in these industries, although some of those in the paper box industry had been carried over from the preceding year. Of these 727 cases, 201 were adjusted through wage changes, either direct increases or changes in method of payment. There were also eighty-eight workers under the building cleaning decree whose hours were reduced while the weekly payments remained the same as before. As the decree for this industry specified an hourly rather than a weekly rate, the result was an increased hourly rate and technical conformity to the decree. Good evidence was found that fifty women in this industry were discharged because of the minimum rate.

Employers in these two industries clearly deserved the only penalty provided in the law, the blacklist. For the first time in its history the commission published the names of employers who refused to pay the minimum rates. The names of one office building employer and eleven paper box manufacturers were posted. These twelve firms were paying a total of 266 women less than the recommended rates. In spite of this publicity most of these employers remained obdurate. This office building employer still has 113 women to whom he refuses to pay the minimum rate. The first resort to the blacklist was largely a failure.

Another vexatious problem was encountered in 1921 in the building cleaning industry through an attempt to escape the burden of the minimum rates. Some of the managers forced

⁷⁰ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Enforcement of Minimum Wage Decrees in Massachusetts, 1920, passim*. Unpublished manuscript.

⁷¹ Further adjustment was made for seventy-one workers by transferring them from time-rates to piece-rates whereby they also were able to increase their wages. Sixty-five women were judged physically sub-normal. Special licenses were granted to forty-four of these. The other sub-normal workers were considered to belong to the "special license type."

⁷² Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Enforcement of Minimum Wage Decrees in Massachusetts for the Year Ending November 30, 1921, passim*. Unpublished manuscript.

⁷³ *Supra*, pp. 37-38.

the workers to greater speed in an effort to reduce the number of hours worked each day. The hourly rate would thus be increased even though the total sum earned during the day remained unchanged. Some of the managers also discharged part of their cleaners and required the remainder to do the work in proportionally less time. The commission felt that these practices were virtually violations of the law and strove to stop them. There was little it could do, however, except through moral suasion.

Non-compliance increased greatly in 1922 in spite of two rates which were revised downward. The activities of the commission were almost exclusively concerned with this problem. Out of a total of over 42,000 women covered by inspections 5675, over thirteen per cent, were found not to be receiving wages in conformity with the terms of the decrees.⁷⁴ Of the sixteen decrees then in force only nine were being readily accepted. Moreover, only few adjustments could be made. About four-fifths of the cases arising in 1922 were still pending at the end of the year. The retail store employers were the worst offenders. A new decree raising the minimum rate from \$8.50 to \$14.00 had gone into effect June first. Comparatively few of the 3710 cases of non-compliance were settled. While no attempts at coercion were made in 1922, it was plain that publication of the names of several of these store-keepers would be necessary.

The large amount of non-acceptance of the rates in 1922 is accounted for in some degree by the fact that new decrees had been issued in six industries. The first inspections after a

decree invariably reveal relatively large numbers of cases of non-compliance. It should also be noted that the inspections were more extensive than those made in previous years. The facts that the law was being investigated and that the legislature was considering modifying it also made the task of securing compliance more difficult.

The commission succeeded, however, in making most adjustments in 1922 through direct wage increases. In spite of the increasing burden of the rates, not many women left their employment. Of those who did, only ten seemed to have been discharged. "Encouragement" may have been given to some of the others. Fifty-six women were considered to be physically defective although actual licenses were granted to only eleven.

The outstanding feature of enforcement in 1923 was the large number of firms blacklisted. Fifty-four retail store firms, twenty-two laundries, three paper box manufacturers, one muslin underwear manufacturer, and one women's clothing manufacturer, a total of eighty-one firms, were published. Several of these firms operated more than one establishment. One of the five-and-ten-cent store chains, for instance, had sixty-three of its stores blacklisted. These firms employed nearly 3000 women. It does not appear that this advertising was any more successful than previous attempts at coercion. Inspections during 1924 showed that the wages of only 523 women had been brought into conformity with the minimum rates. The following year the commission apparently concludes that the chances of adjusting these cases are small, for it observes:⁷⁵ "It was possible . . . to ad-

⁷⁴ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Enforcement of Minimum Wage Decrees in Massachusetts in 1922*, *passim*. Unpublished manuscript.

⁷⁵ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Report for the Year Ending November 30, 1925*, p. 6.

just only a small proportion of these non-compliances."

The commission had a total of 6694 cases of non-compliance to settle in 1923. An unusually large number of women left their employment, whether voluntarily or not the commission could not determine. They numbered 1662. Employers of an equal number of women increased their wages without further opposition. Nearly 150 women were found to be sub-normal. Nearly 250 cases were shelved because of errors in recording, because the employers had gone out of business or left the state, or because the employer had reported adjustment although verification had not yet been made. Most of the remaining cases were in advertised firms.

In 1924 the commission encountered 3933 cases of non-compliance, most of which were in the firms advertised the previous year. The number of new cases was less than usual. Wage adjustments were secured for 460 women. One hundred and nine women left their employment, some undoubtedly being discharged. Two firms employing thirty-nine women below the minimum rates were published in 1924. At the end of the year there were 3138 unsettled cases. The retail store owners were the chief offenders. Nearly 3000 cases were in this industry alone.

The commission published another long list of firms in 1925. A total of 156 stores and factories employing 3335 women below the minimum rates were blacklisted. The stores alone employed 2951 women. In many instances this was the second advertising for the same violation. Information as to the effects of this last advertising is not yet available. New cases of non-compliance in 1925 numbered 824. Wage adjustments were secured for 198 women. Forty-eight left their employment. Five hundred and twelve

were in advertised firms or were otherwise unsettled at the close of the year.

In this review of the extent to which the minimum rates have been accepted, we have seen that prior to 1919 the degree of compliance was more or less uncertain. In 1919, however, the number of women not receiving the rates was negligible—not more than one per cent of the total number of women covered by decrees. Eventually the wages of all were adjusted to the official rates. Since the beginning of 1920 the number of non-compliances has been much larger. Adjustments have been made with increasing difficulty. In fact settlement of many cases has been possible only by publishing the employing firm, because the woman has left her employment, or because the minimum rate has been lowered. In spite of these facts, however, there have not been more than a few thousand women for whom the law has attempted to secure minimum rates and has failed. Furthermore, the number of non-compliances has been decreasing to some extent since 1922. It is to be hoped that more stable industrial conditions will make the task of enforcement easier.

The bare facts of the degree of compliance are not the whole story, however. There are other factors which merit attention as vitally affecting the readiness with which the employers accept the rates. One is the comparatively low figure at which the rates have been set. A low rate is obviously easier to enforce than a high one.

The readiness of the wage boards to consider the financial condition of the industries at the expense of the employees' pay envelopes certainly aided in securing the employers' support. The other factors making for low rates contributed as well. On the other hand, the attempts that have been made since 1919 to bring the rates into closer

conformity with the cost of living have increased the difficulties of securing compliance.

The industrial situation has also greatly influenced compliance. The ascending price level from 1915 to 1920 was a potent force making for a high degree of acceptance. We saw instances of this in the case of the retail store and women's clothing decrees. Its force was felt in all industries. Frequently, we have noted that the minimum rates were so far out-of-date as to be almost meaningless. Conversely, the break in prices in 1920 rendered enforcement difficult. The repeated attacks on the law through the courts have also raised serious obstacles to uniform enforcement.

Whether the law could have been successfully enforced if a rigid standard-of-living wage had been applied and if industrial conditions had been more stable is, of course, problematical. In view of the difficulty which enforcement of the law has presented since 1920, it is certain that the earlier success was founded to a considerable extent on peculiar and favoring conditions. Likewise, conditions since 1919 have been as peculiar but certainly not favoring. Since that time the most disadvantageous side of this type of law has been thrown into prominence.

Thus far in the history of the statute publication of names has been resorted to very sparingly. In 1915 and 1916 the names of those employers in the brush and retail store industries who were following the terms of the decree were published. In 1921 the names of the recalcitrant employers in the paper box and building cleaning industries were published. Since 1923 publication of over 200 employers has occurred. These attempts at coercing the employers through public opinion do not seem to have been particularly successful. It is true that in the brush

industry the publicity was influential in securing compliance. In the retail store occupation, however, some time elapsed before the publication of the "whitelist" was followed by compliance and by that time the rise in prices had removed the greater part of the burden of the rates. The blacklisting in the paper box and building cleaning industries did not secure compliance. Nor does the more recent publication of names seem to have secured compliance.

True it is that the blacklist has not been a severe enough penalty to cause the employers to resort to a judicial review of the minimum rates. The law provides that if an employer can show that the rates will seriously injure his business, he need not pay them. This provision has never been used. It may be that the employers feel that the publicity entailed in going to the courts and airing the fact that they were not in sound financial conditions would be greater than being posted in a blacklist.

On the other hand we should not overlook the indirect effect of this means of securing compliance. The mere threat of publicity has some effect on an employer contemplating a refusal to pay the minimum rates. The force of the blacklist, as the force of other penalties, cannot be measured by the number of times it has been used and has failed. Members of the present as well as of past commissions believe that there is a very real force latent in publicity which influences the employers to meet the minimum rates, even though the blacklist may never be used.

The success or failure of publicity as a method of enforcement depends to a great extent on the way in which it is applied and the amount of public interest which is aroused. There are several instances in which advertising an employer has proved very effective,

particularly in the case of retail store employers who are directly influenced by public opinion. The interest which the public takes in the matter of compliance with the minimum rates is in turn largely dependent upon the effort which the commission makes to develop that interest through its publications and its other work. It is felt in some quarters that the present commission is somewhat negligent in developing a keen public interest in the minimum wage law. It certainly is a fact that the amount of information made public at the present time concerning the operation of the law is far less than the volume published prior to the reorganization of 1919.

A serious drawback of publication as an instrument of enforcement, perhaps the most serious drawback, is its unequal effect on different employers. The size of the penalty of publishing an employer varies to a great extent with the type of business in which he is engaged. Complete acceptance of the minimum rates, therefore, will probably never be secured. There is at least one instance when an employer who had been blacklisted made the necessary adjustments and requested the commission to reinspect his payrolls; and the fact of compliance also published. On the other hand, several employers have already been published twice and the effect on them seems to be negligible. The commission has admitted that "it is impossible to insure impartial treatment for all employers affected by the decrees."⁷⁶ The Recess Commission also reported after its investigation:⁷⁷ "In some cases, advertising an employer may penalize him severely; in other occupations adver-

tising may not affect an employer appreciably."

An employer dealing directly with the public and using a trade name cannot well afford to injure his goodwill by having his firm appear in a blacklist. Some employers cannot afford to advertise the fact that their business is not in good financial condition, which might be inferred from the fact that they do not pay adequate wages. On the other hand, employers selling through jobbers and wholesalers and those who do not fear to injure their credit standing may be little affected by such publicity. In other words the Massachusetts law may be extremely coercive with some employers, while it is merely admonitory with others.⁷⁸

An important if somewhat superficial objection to the method of enforcement as provided in the Massachusetts law is the time and expense involved. Adjustment of the cases of non-compliance requires special agents to visit the recalcitrant firms and convince them of the desirability of meeting the minimum rates. These inspections consume much time and money. The expense of advertising the employers, too, is not small. With so little money as has been placed at the disposal of the commission the question of expense becomes important. The cost of advertising and reinspecting the paper box firms was nearly six times as much as the cost of the initial inspection of those firms.⁷⁹

⁷⁶ An ingenious argument against the blacklist was advanced by a recalcitrant storekeeper. He believed that the publication of his name among those not paying the minimum rates would be cheap and effective advertising in his favor. People would know that he was paying low wages, that his costs would be less, and assume that his prices were lower. This argument assumes a callousness among the consuming public that I would be loath to admit.

⁷⁹ Division of Minimum Wage of the Department of Labor and Industries of the State of Massachusetts, *Annual Report for 1921*, pp. 16-17.

⁷⁶ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Annual Report for 1920*, p. 24.

⁷⁷ Special Commission on . . . the Minimum Wage, *Report*, p. 21.

Not only is this work expensive, it also postpones the time when the new rates are paid. In some instances "several months," as the commission observes, elapse before compliance can be secured. This deprives the employes of the increases in wages, as the Massa-

chusetts law does not provide for the collection of the difference between the wages actually paid and those recommended in the minimum rates. In some industries the value of the minimum rates has been considerably lessened by this delay.

CHAPTER VI

RESULTS OF THE LAW

In judging the expediency of minimum wage legislation, one of the most interesting questions is, has it succeeded in raising the wages of the women who have, presumably, been receiving less than a living income? Extremely low wages have always been the big factor in such legislation. To remedy this situation is the main purpose of a minimum wage law and the fate of the venture must rest finally on this point. It is the purpose of this chapter to present such evidence as exists in respect to the effects of the Massachusetts law on wages.

Let us consider first such statistical evidence as exists on the subject. It is well to recognize at the outset that the data are not available that give a definite answer to our question, an answer that would satisfy an exacting statistician. It is difficult to measure satisfactorily the wage changes that have actually occurred. Furthermore, we do not possess the complementary data necessary to the isolation of the decrees as a causal factor. The first ten years of the law was a period of such fluctuations in wages generally that the part played by the minimum wage rates is much obscured.

Neither the commission nor any other agency customarily makes thorough investigations for the express purpose of ascertaining wage changes.

Only two such investigations have been made. The available data collected are secured for the most part during the inspections of the agents of the commissions to determine compliance. Efforts are made at this time to secure information by taking the rates immediately before and immediately after the decree became effective. Frequently, however, the earlier rates are not available. To be strictly comparable the data should cover at both periods identical factories and even identical processes. The labor turnover is so high among these women and the industrial processes change so rapidly that such exactness is frequently impossible. Even when the rates immediately before and after the decree are available, they do not necessarily reveal the wage changes due to the decree, inasmuch as changes may have been made some time prior to the date when the decree became effective. It has frequently happened that the employers have anticipated the issuing of a decree and even the establishment of a wage board by increasing the rates after the commission has made its investigation.⁸⁰

In most industries figures have been secured which show merely the changes in rates of payment. We have already noted that rates are not always a good

⁸⁰ *Infra*, p. 55.

indication of the actual wage situation. The minimum wage decrees may have caused other changes in the industrial situation that increase or diminish the effects shown by the changes in rates. Among such changes might be mentioned an increase or decrease in hours that would affect the actual wage received. I have already pointed out the reduction in hours that was made in the building cleaning industry for the purpose of bringing the hourly rate into conformity with the minimum rate without changing the weekly payment.⁸¹ Other changes occur in the shifting of workers from one method of payment to another; the increased or decreased speed of the piece workers' and so on. It is impossible to estimate whether and to what extent such factors augment or diminish the results of the decrees as shown by the figures of the commission. They should, however, be borne in mind.

As was the case with the facts found in the original wage inquiries of the commission, a summarized presentation of the results of the decrees is not satisfactory. The table on page 48 may be helpful, however. It presents in concise form the bare facts of what wage changes have occurred. Information in regard to certain of the more recent decrees is not available at present.

To appreciate properly the results of the minimum wage rates, we must consider certain of the decrees in greater detail. Later we shall attempt to draw such conclusions as are possible from all the facts.

The 15.5 cents per hour rate of the brush decree went into effect August 15, 1914. In June, 1915, the commission made a special investigation to determine what the actual effects of the decree had been.⁸² This investi-

gation included nineteen of those factories covered in the former investigation of 1913 which were still employing women in 1915. Additional data were secured from statistics compiled by the Massachusetts Bureau of Statistics. The conclusions of the commission have been stated as follows:⁸³

(1) The establishment of the minimum wage in the brush industry has been followed by a remarkable increase in the earnings of women employed in that industry; (2) the employment of women at ruinously low rates has been practically stopped; (3) the proportion of women employed at more than the prescribed minimum rate has more than doubled; and (4) all this has been accomplished without putting an unreasonable financial burden upon the industry.

Wage changes were found to be as follows: In 1913, forty-six per cent of the women were paid at rates less than \$6.00 per week. Two years later only eleven per cent of the women were paid at rates less than this sum. In 1913, ninety per cent were receiving rates less than \$8.00. In 1915 the number had been reduced to twenty-one per cent. Before the decree went into effect only six per cent received rates of \$9.00 or more. After the decree became effective eleven per cent received this amount. Actual earnings were found for one week—the second in June—for the years 1913 and 1915. Before the decree became effective sixty-one per cent were earning less than \$6.00. After the decree became effective only twenty per cent were earning less than this sum. In 1913 only ten per cent were earning as much

the Minimum Wage Decree on the Brush Industry in Massachusetts, 1915, Bull. No. 7, passim. We shall discuss later the other real and alleged effects of this decree on the industry.

⁸³ Minimum Wage Commission, *Third Annual Report*, 1915, p. 17.

⁸¹ *Supra*, p. 42.

⁸² Minimum Wage Commission, *The Effect of*

WAGE CHANGES ABOUT THE TIME WHEN THE VARIOUS MINIMUM WAGE
RATES BECAME EFFECTIVE IN MASSACHUSETTS, 1914-1924

Occupation	Per Cent Earning Less Than Specified Rates		
	Rate	Before Decree	After Decree
Brush.....	\$8.00	89.5	20.7
Laundry.....	8.00	71.6	3.9
Retail Selling.....	8.00	43.7	18.6
Women's Clothing.....	9.00	55.4	27.2
Men's Clothing.....	9.00	77.5	22.2
Men's Raincoats *.....	9.00	74.8	13.8
Men's Furnishings.....	9.00	69.0	10.1
Muslin Underwear.....	9.00	89.1**	25.7**
Retail Millinery.....	10.00	54.4	18.0
Wholesale Millinery.....	11.00	88.6	18.9
Office Cleaning.....	9.00	94.4	26.5
Canning and Preserving.....	10.00	94.1	16.0
Candy.....	13.00	94.7	58.1
Men's Clothing (2).....	15.00	70.0	9.3
Men's Raincoats * (2).....	15.00	80.6	52.3
Corset.....	13.00	71.1	38.9
Knit Goods.....	14.00	85.8**	38.0
Women's Clothing (2).....	16.00	78.0	25.9
Paper Box.....	15.00	93.7	64.1
Office Cleaning (2).....	10.00	85.0**	66.2**
Minor Lines of Confectionery.....	12.00	53.3	43.8
Women's Clothing (3).....	14.00	12.6	19.4
Paper Box (2).....	14.00	54.6	50.6
Retail Selling (2).....	14.00	78.2	31.6
Men's Furnishings (2).....	14.00	78.7	57.3
Muslin Underwear (2).....	14.00	47.1	43.2
Druggists' Preparations.....	13.00	42.7	35.8
Bakery Products.....	13.00	35.2	22.7

* One decree covered both men's clothing and men's raincoat factories.

** Based on average weekly earnings.

The figure after the name of the occupation refers to the number of the decree, whether second or third. If no number appears, the decree was the first. The amount listed under "rate" is the sum nearest in even dollars to the sum named in the decree.

as \$9.00. In 1915 nineteen per cent were earning this sum or more. These are really significant wage changes. Furthermore, in 1914 and 1915 there were no general increases in wages comparable with the changes in this occupation.

The retail store decree is another of the few which have been especially investigated to determine the effects of the minimum rates. The investiga-

tion was commenced immediately after the decree went into operation on January 1, 1916.⁸⁴ Information concerning the rates of pay and actual earnings was obtained for 917 stores for one week before and for one week after the decree went into effect. In

⁸⁴ Minimum Wage Commission, *Preliminary Report on the Effect of the Minimum Wage in Massachusetts Retail Stores, 1916*, Bull. No. 12, *passim*.

addition payroll records were also secured for the first week in February, 1914, 1915, and 1916 from fourteen stores which had been included in the investigation of 1914.

About two-fifths of all the women and girls employed as full-time workers in the stores from which information was secured had received increases in wages about January 1. Not all of these had received enough to bring their wages into conformity with the minimum rates. There were also nearly 1000 new workers who had been put to work at the newly established minima or at higher rates. Some of these would probably have been paid less if it had not been for the decree. The wages of fifteen women in those stores conforming to the rates were reduced. Since the same proportion of reductions was found in the stores which had not conformed to the decrees, as in those which had, it is not true that acceptance of the decree tended to reduce the wages of the more highly paid workers. There were also about 1000 women whose wages were not yet equal to the minimum rate who eventually received increases. Of the women and girls who had received increases at this time fifty-eight per cent received increases of at least \$1.00, forty per cent received increases of at least \$1.50, seventeen per cent received increases of at least \$2.00, and thirteen per cent received increases of \$2.50 or more.

It is true that wages were increasing generally at that time. Other causes than the decree contributed to these wage changes. The extent to which wages might have risen if there had been no decree is indicated somewhat by the fact that in those stores which did not conform to the commission's recommendations twenty-three per cent of the women received increases. In those stores in which wages were so high that the employers did not need to

change their rates in order to conform, twenty-one per cent received increases. It may be true, therefore, that one woman in five would have received an increase regardless of the minimum rate. As a matter of fact, in those stores which had raised their wages in conformity with the decree, forty-six per cent, nearly half, had received an increase. Furthermore, it may also be true that the decree was a stimulus to increase wages in those stores which refused to comply and in those stores which were already in compliance as well as in the other stores. An employer usually finds it impossible to maintain a desired wage scale apart from market fluctuations. This is as true with unskilled women under a minimum wage law as with other labor. An employer who has a policy of paying the lowest wages possible would find it less easy to maintain his old rates after a minimum wage decree had become effective. Likewise, an employer who pays wages above the market sees this differential disappear under the stimulus of a minimum wage decree unless he raises his own wages.

It is clear that about one-half of the women in the industry had not experienced any change in wages at all. This would tend to show that no general horizontal increase would have occurred. Over ninety per cent of those women who had received increases were employed by firms which had been compelled to make changes in pursuance of the decree. In these stores only 1.6 per cent of the women employed were being paid at rates less than the minimum. In those stores which had not conformed, forty-eight per cent of the women were employed at less than the minimum. The wage situation in these latter stores had improved but little since 1914. Later investigations of retail stores showed that wages responded very slowly to

war influences. An inspection made in 1917 caused the commission to observe:⁸⁵

No general increase in wages above the established minimum . . . has occurred in retail stores, even in cities where there is known to have been a marked increase in wages in other industries.

We see about the same results when we compare the wages for the first week in February for the years 1914, 1915 and 1916. As there were only fourteen stores entering into this comparison the results have only a limited application.

before in the case of the more poorly paid women. It is also probably true that the wage changes prior to 1916 were due in part to the investigation of the commission and the creation of the wage board. The employers began to set their houses in order even before the rates went into effect.

It seems justifiable to conclude that there was a general increase in wages in those establishments which observed the decree; that the increase would not have been so general except for the fixing of these rates; and that the wages of the more highly paid workers,

WEEKLY RATES FOR THE FIRST WEEK IN FEBRUARY, 1914, 1915,
AND 1916, RETAIL STORES IN MASSACHUSETTS
(The decree became effective January 1, 1916)

Year	Percentage of Women with Rates					
	\$5	\$6	Less Than \$7	\$8	\$10	\$12 and Over
1914.....	13.0	19.1	30.6	43.7	80.2	10.0
1915.....	8.4	17.3	26.8	39.9	78.3	12.0
1916.....	....	6.1	12.9	18.6	76.3	13.3

Insofar as these figures portray the true situation, it seems that there was undeniably an increase in wages in motion before the decree went into effect and because of reasons other than the operation of the minimum wage law. There was a noticeable rise in wages between 1914 and 1915. However, it will be noticed that the increase between 1915 and 1916 was considerably greater than the increase in the preceding year; also that this increase came in the wages of the more poorly paid workers. The rate of increase was probably no greater after the decree than it was before in the case of the better paid women. It was much faster after the decree than it was

while not rising in the same proportion as those of the lower paid workers, rose somewhat as the result of the decree.

Other industries do not show the results so satisfactorily. The chief reasons for this, as I pointed out at the beginning of this chapter, are that the situation was complicated by forces other than the minimum wage rates and that investigations as extensive as the two just described have not been made. Nevertheless, some of the available data will be presented for what they are worth.

The women's clothing decree recommended a normal rate of \$8.75 per week to become effective February 1, 1917. No data showing the wage situation just before the decree went into force exist, but wage changes between the

⁸⁵ Minimum Wage Commission, *Fifth Annual Report*, 1917, pp. 35-36.

investigation and the inspection in 1917 could be found in twenty-seven factories which permitted the securing of comparative data.⁸⁶ The number of women who were being paid at rates less than \$6.00 had declined from twenty-three per cent in 1915 to only two per cent in 1917.⁸⁷ In 1915 there were fifty-four per cent receiving rates less than \$8.00. In 1917 this number had fallen to sixteen per cent. How many of these women would have received increases if there had been no decree is unknown. It is certain that some would have. It is equally certain that the general upward trend in wages would not have been sufficient to raise the median approximately \$2.00, as was done.

Two decrees went into effect in the winter of 1918. These were in the men's clothing and raincoat industry and the men's furnishings industry. They both recommended rates of \$9.00 for normal workers. No information as to wage changes is available in regard to the latter industry beyond that given in the table on page 48. In the clothing and raincoat trade, however, the following changes took place between the time of the investigation made in 1915 and the first inspection made immediately after the decree went into operation.⁸⁸ In 1915, thirty-three per cent of the workers in the clothing factories and thirty-seven per cent of the workers in the raincoat factories were being paid at rates less

than \$7.00 per week. In 1918 there were only six per cent in the clothing factories and none in the raincoat factories receiving rates less than this sum. In 1915, twenty-three per cent of the women in the clothing factories and twenty-five per cent in the raincoat factories were scheduled as receiving as much as \$9.00. After the decree became effective these figures were seventy-eight per cent of the women in the clothing factories and eighty-six per cent of those in the raincoat establishments. As in the women's clothing industry, these figures for the two periods are comparable as they relate to identical factories. The following statement was made by the commission:⁸⁹

Comparison of wage rates at the time of reinspections with the rates for the same firms at the time of the original investigation has generally shown a material advance. While other factors have contributed to wage increases, the evidence at hand indicates that compliance with the Commission's decrees has had a definite influence.

The wholesale millinery decree recommending a rate of \$11.00 on January 1, 1919, also had an appreciable effect on wages. The original wage inquiry in this industry was made in 1916. A supplementary investigation was made in the summer of 1918. This investigation revealed "little improvement in wage conditions since the original investigation was made."⁹⁰ Consequently, a considerable part of the increase is ascribed by the commission to the operation of the decree. In 1916 thirty-eight per cent of the women in wholesale millinery establishments were being paid at rates less than \$8.00 a week. In 1919 there were

* Minimum Wage Commission, *Fifth Annual Report*, 1917, pp. 36-38.

⁸⁷ It may be noticed that the figures for the earlier years do not correspond in all cases with the figures presented in Chapter II. This is due to the fact that the figures in this chapter apply to only a part of the industry. The figures showing the results of the women's clothing decree, for instance, include twenty-seven factories. The earlier investigation included thirty-six.

⁸⁸ Minimum Wage Commission, *Sixth Annual Report*, 1918, p. 31.

⁸⁹ *Ibid.*, p. 35.

⁹⁰ Minimum Wage Commission, *Sixth Annual Report*, 1918, p. 18.

only four per cent receiving less than this sum.⁹¹ In 1916 only ten per cent were receiving rates of \$12.00 or more. Three years later sixty-five per cent were earning \$12.00 or more.

If other causes of wage changes at this time could be eliminated we would be able to see the effects of the minimum rates. The problem is one of estimating the extent to which wages would have risen without the minimum wage decrees. To know how much wages in general rose from 1915 to 1920 is not of much value, because we are here concerned with a peculiar type of labor confined to a few industries and to a relatively limited locality. The commission has made several investigations in industries in which wages were so low as to warrant wage boards, but in which the work of the boards was delayed. The supplementary investigation in the candy industry showed that the median wage (average weekly earnings) had advanced from between \$5.00 and \$6.00 in 1913 to between \$8.00 and \$9.00 in 1918.⁹² There had been an advance of about \$3.00 in weekly rates. In the corset industry the median (average weekly earnings) rose from between \$6.00 and \$7.00 in 1913 to between \$10.00 and \$11.00 in 1919.⁹³ In the paper box industry the median showing the average weekly earnings rose from between \$6.00 and \$7.00 in 1914 to between \$10.00 and \$11.00 in 1919.⁹⁴ It is apparent that in these industries there was a considerable increase in wages. In millinery shops, on the other hand, such changes did not occur. The wages of labor directly affected by minimum wage legislation are so far

from being standardized that it is not safe to infer that wages rose in all industries as they did in a certain few. The figures of the Bureau of Statistics of Massachusetts show that the increase in wages in certain of these industries was considerable.⁹⁵ Wages of women in similar circumstances in New York State underwent increases of equal importance.⁹⁶ Another feature that should be mentioned as bearing on this problem is the fact that in many industries the increase in wages has not stopped even after the decree has been in force for some time. Wages have tended to increase even after the decree would seem to have lost its influence. In sixteen of the women's clothing shops, for instance, there were only 26 per cent of the women earning rates of \$10.00 or over in 1915 before the decree became effective. This percentage increased to fifty-two in 1917 after the decree went into effect. In 1918 wages had risen so that eighty-eight per cent were earning rates of \$10.00 or more.⁹⁷ It is difficult to see how the minimum rates could effect important increases some time after the decree had gone into effect and in this way cause changes in wages much higher than the rates recommended. The cause must have been other than the minimum wage law. It is apparent, therefore, that wages, even of unorganized, unskilled female labor in these notoriously low-paid industries, were rapidly rising. While the minimum rates probably had some temporary effects their influence in many industries was lost in the operation of other and greater forces. So far as giving light on the effects of a

⁹¹ Minimum Wage Commission, *Seventh Annual Report*, 1919, p. 50.

⁹² Minimum Wage Commission, *Sixth Annual Report*, 1918, pp. 22-24.

⁹³ Minimum Wage Commission, *Seventh Annual Report*, 1919, pp. 13-18.

⁹⁴ *Ibid.*, pp. 19-21.

⁹⁵ Commonwealth of Massachusetts, Bureau of Statistics, *Statistics of Manufacturers*, issued annually, 1915 to 1919.

⁹⁶ State of New York, Department of Labor, Special Bulletin No. 92, February, 1919. *Weekly Earnings of Women in Five Industries*, pp. 5-6.

⁹⁷ Minimum Wage Commission, *Seventh Annual Report*, 1919, pp. 42-43.

minimum wage law on wages, most of these decrees issued between 1915 and 1920 are, consequently, of little value.

However much the situation was clouded by the general increase in wages before 1920, after this year such changes as occurred in wages were presumably the result of the minimum rates. More than this, as the general tendency of wages was downward until 1922, the minimum rates may have been very effective without necessarily causing an increase in wages. Their function may have been simply to retard the fall. After a revision of a minimum rate downward we would naturally look for a corresponding decrease in wages.

In 1921 the commission tried to raise wages in two more industries. These were the building cleaning and minor lines of confectionery industries. The year 1921 was a trying time for minimum wage work. Employers were striving to scale down their wages. Wage boards were reluctant to recommend rates which really reflected the cost of living. Compliance was very grudgingly given. Any increase in wages that occurred as the result of the decrees in these two industries represents a real achievement.

The second decree for the cleaners of offices and other buildings became effective February 1, 1921. It recommended rates of \$15.40 per week for the women who worked a full week, and thirty-seven cents per hour for those who worked less than forty-two hours a week. The prevailing hourly rates in 1920, were thirty cents and thirty-two cents in conformity with the original decree for this industry.⁹⁸ Eighty per cent of the women were

receiving these rates. After the current decree became effective, naturally the rate was raised to thirty-seven cents per hour in so far as the terms of the decree received compliance. As this was one of those industries in which satisfactory compliance was not secured, all women did not receive the new rate. Nevertheless, important increases in rates are indicated by the information available. Four-fifths of the women were receiving rates of thirty-six cents an hour or over at the time of the first inspection in 1921.⁹⁹ Even those women who did not receive the minimum rate received some increase in wages. After the decree of January 1 went into operation only eight-tenths of one per cent of the women received rates less than thirty cents an hour. The number earning \$12.00 or more increased from fifteen per cent to thirty-four per cent. Here we have a good picture of what the minimum wage can do. The effect of war conditions on wages can be largely eliminated at this time. As we are concerned with hourly rates, we can dismiss the effects of unemployment and irregularities in piece rates. It is apparent, then, that the minimum wage in this industry raised the prevailing hourly rate of women from thirty or thirty-two cents to about thirty-seven cents.

The other decree going into operation in 1921 was in the minor lines of confectionery and food preparations industry. As the normal rate was only \$12.00 one would not expect its effects to be very pronounced. Nevertheless, we can observe a substantial increase in wages.¹⁰⁰ The latest figures we

⁹⁸ Unfortunately no compilation of those receiving thirty-seven cents per hour can be made as the records show wages at two-cent intervals.

¹⁰⁰ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Enforcement of Minimum Wage Decrees in Massa-*

⁹⁹ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Enforcement of Minimum Wage Decrees in Massachusetts for the Year Ending November 30, 1921*, pp. 4-5, and Table 14. Unpublished manuscript.

have with which to compare the wages received after the decree are figures obtained in 1919. The median average weekly earnings for the period of four months from July through October, 1919, was between \$9.00 and \$10.00.¹⁰¹ The median average weekly earnings for the month of November, 1921, was between \$11.00 and \$12.00. Before the decree (in 1919) seventy-three per cent earned on the average less than \$12.00. After the decree, only fifty-six per cent earned on the average less than this sum. In considering scheduled rates rather than average earnings, we find that the increase shown is smaller.¹⁰² It is true that wages were rising generally in 1919, but on the other hand, they were falling in 1921. The latter disturbing factor may be taken roughly as an offset to the other in drawing conclusions from this comparison of wages at the two dates.

We find here also an illustration of the results of recommending rates for learners and minors much below the normal. This decree contained supplementary rates as low as \$8.00. In spite of the fair compliance which this decree secured over two-fifths of the women were still scheduled to receive less than the amount estimated as necessary to provide a decent standard of living.

Information pertaining to the results of the six new decrees which went into force in 1922 is also disappointing. Wage statistics do not show that the decrees accomplished much toward increasing the income of the women. It

must be recognized, however, that this is largely because of the lack of adequate data. The evidence, at least, does not show that the rates were ineffective. In 1922 we had two of the relatively rare instances of a minimum wage decree recommending a normal rate less than the rate in an earlier decree for the same industry. This happened when the women's clothing and paper box decrees were revised downward. The \$15.25 rate in the former industry became \$14.00 on May 15, 1922, and the \$15.50 rate in the latter industry became \$13.50 on the same date. These reductions were both followed by a small decrease in wages.

The other four decrees of this year, 1922, recommended increases in rates. Let us consider the figures relative to but one of these, the second retail store decree. This decree became effective June 1, 1922, recommending that a normal rate of \$14.00 should supersede the old rate of \$8.50.¹⁰³ An investigation covering the period from June, 1922, to April, 1923, gives us the facts of the wage situation after the new decree.¹⁰⁴ We encounter our familiar difficulty again in having no recent wage figures with which these wages of 1922-1923 can be compared. The latest investigation prior to the new decree had been made in 1919. As before we can assume that while wages were rising after this inspection of 1919, they were falling between 1920 and 1922.¹⁰⁵ In 1919 the median rate

chusetts for the Year Ending November 30, 1921, pp. 8-9. Unpublished manuscript.

¹⁰¹ Minimum Wage Commission, *Seventh Annual Report*, 1919, pp. 26-30.

¹⁰² The number of women receiving rates less than the normal minimum rate (\$12.00) before the decree was fifty-three per cent of the total number. After the decree, this number had fallen to forty-four per cent.

¹⁰³ Although only two official decrees have been issued for retail stores, the commission on recommendations of the retail store wage board in November, 1918, requested employers to adopt \$10.00 as the minimum rate. This was never issued as a formal decree. Minimum Wage Commission, *Sixth Annual Report*, 1918, pp. 27-28.

¹⁰⁴ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Enforcement of Minimum Wage Decrees in Massachusetts in 1922*. Unpublished manuscript.

¹⁰⁵ Although the second investigation made no

was between \$11.00 and \$12.00.¹⁰⁶ In 1922 it was very nearly \$15.00. In 1919 only twenty-two per cent of the women were scheduled to earn as much as \$14.00. In 1922, sixty-eight per cent earned this amount. It is reasonable to attribute a part of this increase in wages to the minimum rates.

The only recent decree concerning the effects of which we have any information is the one for bakeries. The commission is so handicapped by lack of funds that it has not been able to collect satisfactory data showing its own accomplishments. The commission attempted to ascertain the effects of the bakery decree by comparing wages in 18 establishments in 1925 after the rates had gone into effect with wages in these same firms in 1923.¹⁰⁷ In 1923 twenty-one per cent of the women in these bakeries were receiving weekly rates less than \$12.00. Two years later this percentage had fallen to twelve. We have already noted from the table at the beginning of this chapter that the number receiving rates less than \$13.00, the official minimum rate, fell from thirty-five per cent to twenty-two per cent. The number earning less than \$15.00 declined from sixty-four per cent to fifty-five per cent. These wage changes are not spectacular, to be sure, but they do show that the decree had some beneficial results.

The effectiveness of the law should not be judged solely by such statistics. The fact that its accomplishments cannot be accurately measured is not proof that there were no accomplish-

attempt to secure wage records of the same women whose records were secured in the earlier study, the two investigations covered a sufficiently large group of workers to nullify to a great extent discrepancies arising from this omission. Rates were secured for 11,211 women in the first inspection and for 13,979 in the second.

¹⁰⁶ Minimum Wage Commission, *Seventh Annual Report*, 1919, pp. 39-41.

¹⁰⁷ This information has never been published.

ments. The presumption is in favor of the efficacy of the rates. The table at the beginning of this chapter (page 48) shows the large proportion of women who have been earning less than the legal rate prior to its issuance. The minimum rates recommended in the decrees have usually been substantially higher than the rates received by the great majority of these women at the time of the wage inquiries conducted by the commission. There are certain exceptions in the lower rates for sub-standard workers, and in the rates which have been lower than previous minima. The inevitable conclusion is that the market rates have risen to meet the legal rates. Unless other forces have caused wages to rise before the influence of the decrees has been felt, the rates have been a factor in giving the workers better conditions. It is no argument against minimum wage legislation in general that other forces at a particular time did intervene and tend to supplant the law. The attitude of the employers in denouncing the law because of ill effects on their business is also some indication that the minimum rates have caused an increase in wages. Wage board deliberations also assume that wages follow the new rates. This assumption is necessarily faced in considering the effects of a proposed rate on the financial condition of an industry.

It is an interesting fact that merely investigating an industry has some effect on wages. The study of individual payrolls, and the publicity given to industrial conditions serve to influence the wage rates. The commission has observed;¹⁰⁸

It sometimes happens that employers anticipate the entrance of a decree or even the establishment of a wage board by increasing rates directly following an in-

¹⁰⁸ Minimum Wage Commission, *Seventh Annual Report*, 1919, p. 55.

vestigation of their industry. Reinvestigations made within a few months of the original one have usually shown such advances, indicating that the wage inquiry of itself results in stimulating rates.

Mr. Arthur C. Comins, himself an employer and a former member of the commission has said:¹⁰⁹

The decree followed by inspections unquestionably improved conditions under some employers; the posting of a notice or the mere imminence of a payroll examination tended to make other employers turn from more pressing problems and examine and revise their payroll columns.

Wages in other industries may even be affected, although such tendencies cannot be estimated.

The fact that the minimum wage decrees have brought the wages of a large number of women up to a higher level is not the sole measure of the success of the law. One of the most common criticisms of the legal minimum wage is the familiar dictum that "the minimum tends to become the maximum." What validity is there in this contention?

The alleged fear of the opponents of such legislation that the wages of the more highly paid workers would be reduced does not seem to have had foundation in fact. It is true that the decrees have occasionally caused employers to revise their systems of wage payments. In this general revision, it has sometimes happened that certain piece-rates have been found to be unduly high and have consequently been reduced. Occasionally, also, compliance with the decrees has necessitated changes in the method of payment so that one or two women would find themselves unable to earn as much as before. Such instances are merely incidental to the reorganization brought

¹⁰⁹ Special Commission . . . on the Minimum Wage, Testimony taken at the third hearing. Unpublished manuscript.

about by the rates and are relatively unimportant. I was also told by certain opponents of the law that several firms deliberately recouped themselves for the burden of raising the wages of the poorer workers by lowering the wages of the more highly paid women. I could not find a single authentic instance of this, however.

In the building cleaning industry the rates fixed in the decrees have apparently become the rates paid to the great majority of the women. The minimum rate has tended to become the standard. This development is due partly to the fact that the whole industry consists largely of one occupation with little opportunity for differentiation of wages between women in different tasks. Another reason is the fact that of all industries considered, building cleaning employs the lowest grade of labor from the standpoint of skill. No experience and no ability beyond a certain physical strength is required. This is the only industry in which there have not been special lower rates for learners and minors. They are not needed here. The work is also almost entirely time-work. In other industries the piece-rates are set high enough to permit the slower workers to earn the minimum rates. The speedier workers consequently, are able to earn more.

So far from decreasing the wages of the more highly paid workers, the minimum rates have seemingly increased them almost as much as the rates of the more poorly paid women. Evidence similar to that relating to the brush industry exists in the case of most industries where there is any evidence at all.¹¹⁰ The explanation of this certainly is troublesome. Why should an employer if he has the

¹¹⁰ In the brush industry the number receiving rates of \$9.00 or more was only six per cent before the decree, but was 11 per cent after. *Supra* p. 47.

bargaining superiority which the agitation for the law assumes, increase the wages of his more highly paid women simply because he increases those of the more poorly paid women? In fact, if the minimum rate is recommended by the commission on the assumption that it is an approximation to the amount necessary to provide an adequate standard of living, and if the employer has the opportunity to pay wages practically at his own will, why does he not consider the rate recommended to be the proper one for the industry and make it the most prevalent one?

The answer seems to be two-fold. In the first place, the manufacturer or merchant cannot reduce the wages of many of his better workers even if he would because so many of them are on piece-rates. To fix piece-rates high enough to permit the slowest workers to earn the minimum affords an opportunity to many women to exceed the minimum. In the second place, the employer is not in a position to fix the wages of many of his workers irrespective of their wishes. Many of the workers do have some bargaining power. At least they have enough so that they can not only successfully resist reductions in their wages at a time when the wages of other women are being raised, they can also frequently secure an increase in wage

rates whereby their differential is preserved. The forces that produced the differential before the decree went into operation are still influential after the modal rate has been advanced. The fact that such wide variations exist in wages between different occupations and different individuals within one factory or between different factories is not due entirely to chance and the employer's conscience. Consequently, as frequently happens with other types of labor, the wage rates of certain occupations and of individual workers cannot be raised relative to the wages of other workers without causing discontent. Eventually it may be necessary to raise the wages of all. There is no reason why women whose superior ability and bargaining power have enabled them to earn more than their sisters before the minimum rate became effective should permit this differential to disappear because of the introduction of a living wage for all women. Custom and tradition even with unskilled women are forces tending to preserve whatever differentials may have existed between different groups of workers. The labor of the better paid women still secures a higher valuation by the employer than does the labor of the more poorly paid group whatever the general level of wages may be.

CHAPTER VII

RESULTS OF THE LAW (*Continued*)

Effects of the rates on wages are not the sole criteria by which we can pass judgment on the desirability of minimum wage legislation. It is inevitable that such interference in business should have consequences other than wage changes. Some are beneficial; others are not. Let us consider certain so-called evils of the minimum wage.

Perhaps the most common arguments against the legal minimum wage are that it injures an industry financially and also causes the discharge of many employees. The burden of the higher wage scale thus reacts to the detriment both of the employer and of his employees. The employer is injured because his costs of production are

increased. In the production of goods subject to interstate competition the employer hiring labor under a minimum wage law is consequently at a disadvantage compared with those employers who can secure their labor in an unrestricted market. Even though his products do not enter interstate trade, the employer must raise his selling prices to compensate for his increased costs. This means a reduced volume of sales. The result is substantially the same as though he were competing with employers in other states. Production must be curtailed or even discontinued. The employees are injured because many of them will not be able to produce enough to earn the increased wages and thus will be thrown out of employment. Presumably there are fewer jobs for the less efficient women at high than at low wages, other things remaining the same. There is also a tendency for workers in other industries to flock to those protected by a decree in order to secure the artificially higher wage. The poorer workers will thus be displaced. Such is the substance of the *a priori* argument against the legal minimum wage. It would seem to be founded on sound logic. The real question is whether these results actually occur to a degree sufficient to condemn the law.

The effects of the first brush decree in particular have been the subject of much controversy. The president of the largest brush manufacturing firm in the state testified before the Recess Commission that the decree compelled them to give up the production of low-grade brushes. These brushes were made by the most poorly paid women. He said:¹¹¹

¹¹¹ Special Commission on . . . the Minimum Wage, Testimony taken at the sixth hearing. Unpublished manuscript.

Brush manufacturers here cannot compete on these lines with brush manufacturers in other states having open market for labor. When that law was put in force our Company stopped making lowest priced brushes, and decreased the working force by 400 work people. The Minimum Wage Law was the only cause of decrease in workers.

The Industrial Betterment Committee of the National Association of Manufacturers also has stated,¹¹²

The application of the minimum wage law to the brush-making industry in Massachusetts has led to the following result: Practically every employee affected by the law has been discharged.

A pamphlet signed by three employers purporting to be the executive committee of an association of most of the merchants and manufacturers of Massachusetts enumerates other evils of this decree.¹¹³ At the outbreak of the war, the brush industry went through a severe period of depression because of inability to secure adequate supplies of bristles. As soon as the industry had weathered this difficulty, however, it revived greatly throughout the country. The demand for brushes greatly increased, but the report speaks of the "deplorable inability of Massachusetts brush factories to compete in any way for this extraordinary new business because of the operation of the Minimum Wage Law." The assertion is made that the admitted increase in capital and the value of the product was due entirely to rising prices. The pamphlet claims that many men were also thrown out of employment because their work depended on the employment of

¹¹² National Association of Manufacturers, *Proceedings of the Twentieth Annual Convention, 1915. Report of the Industrial Betterment Committee on the Legislative Minimum Wage*, p. 119.

¹¹³ Executive Committee of Merchants and Manufacturers of Massachusetts, *The Minimum Wage a Failing Experiment*, pp. 22-27, 35-37.

women. It was alleged that in one factory the total amount of wages paid to women and minors subject to the decree decreased over one-third.

The commission made a special investigation of the results of this decree soon after it became effective. The commission concluded that few of the charges made by critics of the law were based on actual facts.¹¹⁴ It was true that the brush industry had been through a period of depression late in 1914. But the industry seemed to be in a more healthy condition at the beginning of 1915 than it was two years before. The commission found the following significant facts from figures compiled by the Massachusetts Bureau of Statistics:¹¹⁵ The capital invested in this industry increased about nineteen per cent between 1913 and the latter part of 1914 after the decree had become operative. The value of stock and materials used and of the product had also increased. There was no general price increase at that time sufficient to account for these changes. The number of establishments also had increased from twenty-seven to thirty. While the commission found some instances of the discharge of women, the *total* number of women and minors in the industry had actually increased. Even the firm alluded to above as the one which discharged 400 laborers was employing more women than it was in 1913. The number of men employed, on the other hand, had decreased. It was hardly possible, according to the commission, that the decrease in the number of men employed was caused by the discharge of women. It was but an aspect of the general un-

employment in all industries. The commission concluded:¹¹⁶

It is obvious, therefore, that for this industry the establishment of minimum wages has not had the effect at times prophesied for it, namely, of throwing many women and minors out of work and encouraging instead the employment of men and the few skilled women.

There was no indication, therefore, that the operation of this decree had seriously injured the industry. Production was not curtailed. No great number of women was discharged.

According to certain opponents of the law the retail store industry also was dealt a severe blow by the establishment of the minimum rates. The ill effects were seen most vividly in the large number of women discharged. The claim was made that eleven per cent of the girls in eight leading department stores in Boston were discharged when the first decree became effective.¹¹⁷ This ratio was typical of the industry throughout the state. Similar allegations were made and emphasized at the hearings of the Recess Commission.¹¹⁸

The number of store employees did undoubtedly decline about the time the decree of January 1, 1916, went into operation. In the first week in February, 1916, the number of full-time women and girls permanently employed in department and dry-goods stores was 4.6 per cent less than the number employed in the first week in February, 1915, and 10.7 per cent less than the number employed the first week in

¹¹⁴ Minimum Wage Commission, *The Effect of the Minimum Wage Decree on the Brush Industry in Massachusetts*, 1915, Bull. No. 7, p. 12.

¹¹⁷ Executive Committee of Merchants and Manufacturers of Massachusetts, *op. cit.*, pp. 32-33.

¹¹⁸ Special Commission on . . . the Minimum Wage, Testimony of Mr. Lunt, counsel for the employers, and of Mr. Alexander Whiteside of the Massachusetts Retail Merchants' Association at the seventh hearing. Unpublished manuscript.

¹¹⁴ Minimum Wage Commission, *The Effect of the Minimum Wage Decree on the Brush Industry in Massachusetts*, 1915, Bull. No. 7, *passim*.

¹¹⁵ Bureau of Statistics of Commonwealth of Massachusetts, *Statistics of Manufactures for the Years 1913, 1914, and 1915*, *passim*.

February, 1914.¹¹⁹ The total amount paid in wages in 1916, however, exceeded that paid in the earlier years. The decline in the number employed was due partly to the general trade conditions and partly to a movement toward greater store efficiency which eliminated messengers, cash girls, and workers at certain other low-paid tasks. This tendency had been noted in the investigation in 1914.¹²⁰ It could not have been a phenomenon caused primarily by the decree, although it is possible that the decree accelerated it. It is difficult to see how the decree could have caused women to be discharged in 1914 and 1915 as it did not go into operation until January 1, 1916. Furthermore, the decrease in the number of salesgirls, to whom the normal rate of \$8.50 most generally applied, was greater before the decree than it was after. There was a change of only one per cent in the number of salesgirls between the first week in February, 1915, and the first week in February, 1916.¹²¹ The number of discharges which occurred in January, 1916, after the decree became effective, was no greater than that which occurs every year. Many girls who have been taken on as extras are always released

after the holiday rush. There do not seem to have been more in 1916 than in other years.

There is further evidence that the unfortunate results of the decree described by the opponents of the law did not actually occur. Shortly after the decree went into operation the Boston Social Union—a federation of twenty-six settlement houses—appointed a committee to investigate the effects of the law on the employment of girls and to assist any who might suffer through loss of work. This committee served during most of 1916. It solicited information from the Minimum Wage Commission, from the stores themselves, and from various social agencies. Two stores were found which claimed to have discharged thirty-five and seventy-five employees respectively.¹²² In none of the other stores visited had there been as many discharges, although several stores stated there were a few. Inasmuch as some of the stores refused to give the names of the employees whom they claimed to have discharged, the names of only seventy women and girls in twelve stores could be secured who beyond question lost their jobs because of the minimum wage law. The committee followed the industrial history of these discharged girls wherever possible. It concluded that there had been no financial loss to the group as a whole. Most of the girls found employment at increased wages. The committee stated:¹²³

The surplus on about four months of steady work will, therefore, compensate in the year's total for the weeks of idleness ensuing from their loss of position. Thus, the benefit accruing from the advance in the standard of pay becomes operative for them with the beginning of the second year without any serious loss.

¹²² The report of this committee is published in full in the *Boston Evening Transcript* for November 11, 1916.

¹²³ *Ibid.*

¹¹⁹ Minimum Wage Commission, *Preliminary Report on the Effect of the Minimum Wage in Massachusetts Retail Stores*, 1916, Bull. No. 12, p. 21.

¹²⁰ Minimum Wage Commission, *Wages of Women in Retail Stores in Massachusetts*, 1915, Bull. No. 6, p. 18.

¹²¹ The number of salesgirls decreased about five per cent between the first week in February, 1914, and the first week in February, 1915, and one per cent from 1915 to the first week in February, 1916. The number of messengers and bundlers decreased about thirty-three per cent between 1914 and 1915 and about twenty-five per cent during the following year. The figures have only a limited application, however, as they concerned merely fourteen stores. Minimum Wage Commission, *Preliminary Report on the Effect of the Minimum Wage in Massachusetts Retail Stores*, 1916, Bull. No. 12, p. 23.

The commission has frequently encountered instances of apparent discharge in its efforts to secure compliance in industries other than brush making and retail selling. Prior to 1918 very few cases (the exact number has not been recorded), were found. Since that year approximately 3000 women have left their employment apparently as the result of the operation of the decrees. Not all of these could be said to have been definitely forced to leave. Some left voluntarily. In only about 150 of these cases was the commission thoroughly satisfied that compulsion was used. Some of the others were undoubtedly discharged, although the exact number cannot be named. It must be remembered that there is a large turnover among these women and girls entirely apart from any influence of the minimum wage law. On the other hand these figures exclude any that may have left prior to the initiation of the inspections in the various industries. Employers may have discharged some women before the agents of the commission visited their establishments or even before the decrees had gone into operation. There is no evidence as to the number of women so discharged.

The Acting-Director of the Division of Minimum Wage does not think that the number of women dismissed has been large. She and the other officials at the State House are of course in close touch with the industries under decrees. If a substantial number of girls were being dismissed as the apparent result of the operation of any decree, complaints would begin to come in through the Associated Charities, the Women's Trade Union League, and similar organizations. Discharged women even come to the commission in person. The fact that few such complaints have been made leads to the belief that the decrees have not

caused any large number of dismissals. The Acting-Director has said:¹²⁴

In a few instances it [the law] has caused the dismissal of employees. . . . It is difficult, of course, to ascertain the exact number that may be displaced. I think it is as a matter of fact a very small number. The Commission always endeavors to discourage that practice, to explain that the compliance with the terms of the decree means making wage adjustments and not dismissing employees and in a number of cases where we explained the purpose, the Commission has succeeded in preventing that action being done.

Presumably if there was any very marked effect in the way of displacing workers there would be complaints coming to the office from workers that are dismissed.

This observation is endorsed by a representative of the Federal Bureau of Labor Statistics. This investigator visited thirty-one establishments in Boston and vicinity in the summer of 1920. Only one firm admitted having resorted to discharges. This was a five-and-ten-cent store.¹²⁵

Numerous isolated instances have been cited by employers as evidence of the detrimental effect of the rates on the financial condition of the industries and on employment.¹²⁶ As with the brush and retail store decrees, however, the alleged evil consequences of the minimum rates are not clearly perceived. Arithmetical demonstration

¹²⁴ Special Commission on . . . the Minimum Wage. Testimony taken at the first hearing. Unpublished manuscript.

¹²⁵ Bureau of Labor Statistics, *Minimum Wage Laws of the United States: Construction and Operation*, Bull. No. 285, p. 151.

¹²⁶ At the hearings before the Recess Commission figures were introduced showing the small margin of profits in retailing. The inference was that the rates were primarily responsible. (Special Commission on . . . the Minimum Wage, Testimony taken at the second hearing.) It was also claimed that the paper box department of one of the large rubber companies had closed down and had moved to another state. (*Ibid.*, seventh hearing. Unpublished manuscript.)

of the effects of the rates is rarely possible. Neither are there many concrete illustrations showing these effects.¹²⁷

It must be remembered that in most industries the labor cost is a small part of the total cost. Consequently, the total cost of production would be increased by a much smaller ratio than the minimum rates. Since not all of the women receive increases, since the increase is a small part of a woman's total wage, since in many industries there are more men working than women, and since the total labor cost often is a small part of the whole cost of production, the final effect of the minimum rates may be negligible. The wage board for the building cleaning industry, for instance, estimated that the rate of February 1, 1921, would increase wages for most women in the industry about twenty-two per cent.¹²⁸ This would mean an increase in the cost of maintenance of the buildings of not less than one nor more than three per cent. This in turn would reduce the return on the investment only one-eighth or one-fourth of one per cent.

The commission also made a study of labor costs in eight department stores, two specialty stores, and one five-and-ten cent store chain before the decree went into operation.¹²⁹ It was found that the wages of sales persons averaged 6.9 per cent of sales. It is impossible to estimate exactly the

¹²⁷ It may be remembered that employers have produced little evidence in wage board meetings relative to the possible ill effects of proposed rates.

¹²⁸ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Statement and Decree Concerning the Wages of Women in the Office and Other Building-Cleaners' Occupation in Massachusetts*, Decree No. 18, pp. 3-4.

¹²⁹ Minimum Wage Commission, *Wages of Women in Retail Stores in Massachusetts, 1915*, Bull. No. 6, pp. 13-16.

extent of the rise in wages as the result of the decree, but from our discussion in the preceding chapter¹³⁰ it appears that wages rose not more than one-third. If this is true, an increase in the selling price of about two per cent would pay for the additional wages. This estimate is only approximate, to be sure, but it goes to show that the minimum rates usually mean only a small increase in the selling price, even if they are passed on in their entirety to the public.

The fact also should be borne in mind that even though the wage increases do mean a considerable addition if they are added to the cost of production, it does not necessarily follow that they are always so added. The minimum rates may result and in some instances certainly have resulted, not in augmenting the labor costs but in actually reducing them. Whether it be held that wages rest fundamentally on the "productivity" or on the "marginal valuation" of labor, it is true that this "productivity," or this "marginal valuation" may increase when a living wage is paid. Even if it is true that each worker is receiving "what she is worth," it does not necessarily follow that she is not worth more when an incentive to increase her efficiency is given in the form of an increased wage. Furthermore, the pressure of the minimum rates may cause an improvement in managerial methods which more than offsets the added burden of the rates.

Generalizations as to the effects of the minimum rates on efficiency are unsafe as information is limited and much of it is unreliable. A large number of individual instances might be cited, however, which show that the decrees do promote efficiency. Some of them may well be mentioned here. We have already noticed that the

¹³⁰ *Supra*, pp. 48-50.

minimum rates in the building cleaning industry resulted in a reorganization such as to stimulate the women to perform more work. The decree caused some discharges and the consequent speeding up of the other women. While these results were regrettable, the incident serves to show how the decrees may operate to promote greater efficiency. Another incident shows a similar effect. The commission says:¹²¹

An interesting development in connection with the inspection work is the indication that the adoption of minimum rates tends to promote industrial efficiency. In 71 of the cases coming up for adjustment girls who were not considered worth the minimum were changed from time work to piece work at the regular piece rate of the factory, and in each case were able to earn the minimum or over. In this connection the method employed by a large manufacturer in meeting the requirements of the decree is significant. Each of the foremen in the factory was held responsible for seeing that the girls under his supervision earned the minimum. This was accomplished by ascertaining that the employes were properly instructed about their work, and by adjusting them to the tasks for which they were best suited. When a girl fell below the minimum the foreman looked into the matter to see whether she needed more training, or whether she was on the right kind of work. She was then given further instruction or transferred to another process, as the situation warranted. As a result of this method the firm reported that not only were they able to meet the decree without discharging a single employe, but the efficiency of their workers had been increased and production stimulated.

Still another instance of the beneficial effect of the decrees in weeding out inefficient methods of operation is seen in the clothing industries. Prior to the decrees conditions were

deplorable in these occupations. Competition was stifling. This competition was not so much with other states as within the industry in Massachusetts. Little capital was necessary to start a business and much of this could be borrowed from stores purchasing the product or from jobbers selling the cloth. These ephemeral concerns employed women at starvation wages under very poor working conditions. Management was very inefficient. The number of failures was large, but new firms were always ready to enter the field. The result was a continual pressure on the old, well-established concerns to meet the wages of these fly-by-night firms.¹²²

The establishment of minimum rates has tended to prevent this reduction of wages to a very low level. The employers have had to secure women who are capable of earning higher wages and to provide conditions which permit them to do so. It has shifted the pressure of competition from the wage bill which seems to be the most elastic point to more efficient management. The rapid turnover, both of firms and of employes, has apparently declined. "Anarchical" conditions, as the women's clothing board termed them, have largely disappeared. Other factors have contributed to this change, it is true. But the establishment of a limit below which competition could not force wages has certainly been a benefit to this industry.

The commission in its adjustment work frequently finds women who have been shifted from one operation to another or from time-work to piece-work. This oftentimes results in increased wages for the women with no

¹²¹ Division of Minimum Wage of the Department of Labor and Industries of Massachusetts, *Annual Report for 1920*, p. 20.

¹²² Cf. Minimum Wage Commission, *Statement and Decree Concerning the Wages of Women in Women's Clothing Factories in Massachusetts*, Decree No. 4, p. 5, and *ibid.* for muslin underwear industry, Decree No. 22, p. 3.

additional cost per unit of product. By changing a woman from time-work to piece-work, an employer places the responsibility of earning the minimum rates on the worker herself. If the piece rates are sufficiently high to permit most women to earn the minima, the employer is not concerned about the few who do not. Presumably they are defective.¹³³

The fact that the decrees do not necessarily result in an increase in the cost of production has been frequently pointed out by persons familiar with the operation of the law in Massachusetts. Professor Arthur N. Holcombe has described the situation which he found as an early member of the commission as follows:¹³⁴

High wages mean low labor cost. In comparing the pay-rolls of competing establishments (and we were never able to make this information public in the most convincing way because we never felt free to make public actual conditions in individual firms) we found when comparing the pay-rolls of different establishments competing in the same industry, selling in the same market, drawing their labor from the same sources, that as a general rule in those

¹³³ *Supra*, p. 95. Occasionally, the rates have seemed to cause the substitution of a time-rate for a piece-rate. This is due apparently to the fact that compliance is easier when all workers are being paid at a few definite rates than when each one earned a different amount although paid the same price per piece.

¹³⁴ Sub-Committee of the Committee on the District of Columbia, of the House of Representatives, 65th Congress, 2d Session, Hearings on H. R. 10367, pp. 22-23. Mr. Lawrence Brooks, counsel for the War Labor Board and a member of the men's furnishings wage board has stated, "It [the law] has shifted employees a little bit and taken an employee not suited to her occupation and put her in an occupation where she could perform more suitably, and I have no doubt, the pressure of the minimum wage just as the pressure of the union, has called for greater efficiency among the employers to meet conditions." Special Commission on . . . the Minimum Wage, Testimony taken at the seventh hearing. Unpublished manuscript.

establishments where higher wages were paid for the same class of labor, the labor costs were lower, measured as a percentage of the goods sold.

Secondly, we found that low wages were not always caused by low efficiency on the part of the wage earner. . . . Low wages may not indicate low worth on the part of the wage earner, but they may indicate low managerial ability on the part of the employer.

The results obtained by the William Filene and Sons Company by the observance of relatively high wages are well known. Mr. E. A. Filene has stated his opinion of the service rendered by the minimum wage law as follows:¹³⁵

If the state fixes the minimum wage at a proper level, it helps me as well as my employees. It helps me first by making sure that somebody isn't going to undersell me at the expense of his employees. It also prevents me as an employer from having a body of employees who, because they are not paid decent wages, are incapable of being consumers for my business. In the third place, it helps me by forcing me to help every employee to earn at least \$14. . . . If, however, you make me pay \$14 to one person, then I am going to teach him to be efficient enough to earn \$14. In our store we find it pays to have classes and to try in every way to make our employees capable of earning a high wage.

When wages are paid that remove worry, that allow the building up of physical and mental energy by proper food and housing, and the increase of comfort, and self-respect by the purchase of proper clothing and similar necessities, the chance is created for more intelligent action on the part of employees, for study and training that will fit them for good work and for greater efficiency in the jobs at which they are employed.

A minimum wage decree does not always promote greater efficiency on

¹³⁵ E. A. Filene, "The Minimum Wage and Efficiency," *The American Economic Review*, Vol. XII, September, 1923, pp. 412-14.

the part of the workers and of management, of course. Nevertheless, these illustrations indicate that the rates have had important effects in this direction. A quantitative measurement of these effects is obviously impossible. Whether or not the decreased cost of production due to greater efficiency compensates for the increased cost of production due to the advance in wages is open merely to conjecture. It must be recognized as a possibility, however, that a compulsory increase in the wages of these workers at the lowest end of the wage scale does not necessarily mean a corresponding increase in the cost of production.

Another important factor to be remembered in estimating possible ill effects of the rates on business is the great variation in wages in different establishments. In practically every industry investigated it has been found that firms drawing their labor supply from the same market, dealing in similar products, and catering to the same trade, pay widely differing wage scales. Differences of \$3.00 to \$5.00 in the median wages of competing establishments are common.¹³⁶ If one concern can pay adequate wages and still be successful, why cannot its competitor do likewise, is a question often asked. Here is where the position of many employers to the effect that the minimum rates put them at a disadvantage with competitors in other states seems somewhat untenable. If certain employers can meet interstate competition and still pay adequate wages, it is no hardship on the industry to compel all employers to pay adequate wages. As a matter of fact, the ordinary manufacturer or merchant is probably more concerned over the wage scale of a competitor across the street than of one in another state. So long as great diversity in wages exists within

the state, the pressure of interstate competition in wages is of secondary importance.¹³⁷

It is true, of course, that a minimum wage bears more heavily on some employers than on others. Those employers who pay the lowest wages have more and greater adjustments to make than the others. Some may suffer hardship while placing their wages on a more adequate basis. By and large, however, the fact that the decreed rates have not been higher than the rates paid by many of the employers is an indication that the industries in their entirety have not suffered greatly.

We have now considered the most widely discussed results of minimum wage legislation—namely, the effects on wages, discharges, and the financial condition of the industries. There are other results which should be mentioned which are in many respects no less important. The law has rendered a valuable contribution in the education of the public in wage matters, in training both employers and employees in wage conferences, and in promoting a realization of the benefits of co-operation between employer and employee. As we have frequently noted, one of the fundamental assumptions of this legislation is that an enlightened pub-

¹³⁷ The Acting-Director has said of the relative unimportance of interstate competition as compared with intrastate: "I do not think the rates are sufficiently high to have any serious effect on the question of interstate competition, because the rates are lower than the rates in effect in a number of representative establishments in these same industries, and if those establishments can maintain those rates in the face of outside competition, there is no reason why their competitors right here in the state could not. Our investigations indicate that the most serious competition is intrastate competition, that where one employer is paying reasonable wages he is subjected to unfair competition when his competitor next door refuses to pay these rates." Special Commission on . . . the Minimum Wage, Testimony taken at the first hearing. Unpublished manuscript.

¹³⁶ *Supra*, Chap. II.

lic opinion will influence employers to pay adequate wages. People are educated in industrial conditions of women workers, in prices and the cost of living, and the methods of wage determination. It seems very unfortunate, therefore, that the present administration has seen fit to curtail its activities in collecting and publishing information on these points. Until 1920, when the present officials assumed office, the results of the various investigations conducted by the commission were regularly published. These bulletins were very instructive. They were vital cogs in the machinery of publicity. No bulletins have been issued since 1920 and I understand that the present officials intend to issue none. Even the annual reports have been reduced to a mere recital of the commission's activities. The report for 1925 contained but eighteen pages, whereas that of 1914 contained 158 pages.¹³⁸

The fact that the wage boards bring together employers and employees in the same industry to discuss wages, hours and other similar matters is also of value. Frequently the convening of the wage board is the first occasion that representatives of employers and of employees have had to meet and discuss wages. They recognize that they have many interests in common and that the welfare of both depends on the equitable solution of these problems. Mr. A. C. Comins,

¹³⁸ The Acting-Director remarked of the value of this information which is no longer published by the commission: "In the case of a measure like the Massachusetts minimum wage law which depends for its effectiveness on public opinion, it would seem that the publication of the results of the wage investigations is essential. This information is valuable under any law; it is indispensable in the case of a law which operates through public opinion, for the only way in which such a law can function effectively is through public knowledge of the facts." *The Survey*, June 15, 1924, p. 358.

a former member of the commission, although opposed to the law, speaks of the

Not inconsiderable benefit to an industry of having a group of fair-minded employers and employees exchange freely across the table their own problems and grievances in the presence of disinterested representatives of the public.¹³⁹

Other results of the minimum rates have been felt in the matter of the employment of learners and minors. It is inevitable that these "apprenticeship" regulations should cause considerable readjustment. If there is a wide differential between the rate for the apprentice and the rate for the experienced worker, or if the apprenticeship period is too short for the girl to learn the task, she may be discharged at the end of the period because of her inability to earn the normal rate. If the differential is too narrow, the training of the girls is made too expensive for the employer. If too long a time is allowed for learning the business, the girls continue to receive the sub-standard rates long after they become experienced. As we noted in considering the determination of rates, most apprenticeship periods have been too long.¹⁴⁰ Occasionally the rates have caused the discharge of some girls at the end of the apprenticeship period. This has occurred in industries like minor lines of confectionery which have branches of widely differing training requirements. In reply to a question as to the extent of this tendency to discharge workers at the close of the apprenticeship period, the Acting-Director has said:¹⁴¹

¹³⁹ Special Commission on . . . the Minimum Wage, Testimony taken at the third hearing. Unpublished manuscript.

¹⁴⁰ *Supra*, pp. 36-37.

¹⁴¹ Special Commission on . . . the Minimum Wage, Testimony taken at the fourth hearing. Unpublished manuscript.

There is some indication that that tendency exists. The Commission endeavors to discourage that wherever it is proposed and in many instances it has been prevented. That is more apt to be the case if there is a very wide variation between the rate for apprentices and the rate for experienced employees. It is also apt to be the case if the occupation has branches which are widely varying in the scale required.

For the most part, however, whatever tendency may have resulted from the rates in this respect is submerged in the very rapid turnover of this type of labor. On the whole, the rates seem to have had an influence toward standardization of wages and learning periods of apprentices. They have tended to prevent the employment of large numbers of girls at very low wages. The first retail store decree, for example, did much to protect learners and other young workers.¹⁴²

These apprenticeship regulations are, of course, difficult to enforce. The commission recommends that each employer give his employees cards showing the length of time they have been employed in his establishment. Even when this is done it is easy for the employer and employee to ignore the past industrial history of the worker if it is to the interest of both. The employment manager of one of the large candy manufacturing firms stated to the Recess Commission that girls frequently came to his plant and offered to work in violation of the apprenticeship rules.¹⁴³ The Commission attempts to check up all cases where the normal rate is not paid and seems to be fairly successful in preventing undue evasion of the apprenticeship regulations of the decrees. After all, an employer does not have to

pay even the supplementary rates if he does not care to. He may choose to be listed as a non-complying employer and published as such.

The legal minimum wage has been frequently opposed because of supposed ill effects on union labor. It is alleged that a minimum wage law retards the growth of unionism by making the union organization unnecessary and that it also has a depressing effect on the wages of union labor. Wherever there is a possibility of organization legislation will naturally be discouraged. It is pretty well recognized, however, that union organizers have not yet been able to unite permanently the type of woman directly subject to the official minimum rates. Among the more enlightened union officers it is generally admitted that most of these women will never form solid organizations. It is true that there are unions among the garment workers. Sporadic attempts to organize the retail store clerks and other workers have also been made. Little success has attended these efforts. There are probably not more than 7000 union members subject to the decrees in Massachusetts at present. It is doubtful if this proportion will increase.

The minimum wage law attempts to fix merely an amount below which wages shall not fall. There is a wide field of wage bargaining which the law does not enter at all. Moreover, there are other negotiations to be carried on apart from the wage contract. Wage boards do not establish hours nor other working conditions. There are still incentives for organization, therefore, even though a minimum wage law is operating. Consequently, most unionists recognize that there is little possibility of the law injuring the union. The Women's Trade Union League has always been in favor of the law and has done much to make it a

¹⁴² Cf. Minimum Wage Commission, *Fourth Annual Report*, 1916, p. 17.

¹⁴³ Special Commission on . . . the Minimum Wage, Testimony taken at the third hearing. Unpublished manuscript.

success. The president of this organization agrees that little can be accomplished for these women through organization. In fact the law may be an actual help to the unions by educating these workers in wage matters, by giving them training in conducting wage conferences, by initiating them into the habit of securing wage changes in this manner, and by creating in the minds of both employers and employes the consciousness of common interests.¹⁴⁴

There is opposition to the law in some union quarters because it is felt that the minimum rates have had a detrimental effect on the wages of union labor. The President of the Telephone Operators' Department of the International Brotherhood of Electrical Workers, and a member of the retail store board, has said:¹⁴⁵

Thus the Unions are continually having to meet the argument by employers that the State regards such-and-such a wage as a proper, standard living wage.

I believe it is not unfair to say that the Massachusetts minimum wage has kept wages down in the organized trades. Certainly it has had that tendency, and certainly it is a powerful argument on the employers' side. . . .

She made this criticism of the law in Massachusetts because of the low rates. She believes in minimum wage legislation in principle. I have occasionally encountered resentment toward the law among certain of the better paid workers because they felt it was keeping their wages down. They felt that the law was granting increases of wages to other workers who were doing nothing to merit it. "Why should so and so get \$15.00 and not earn it, while I earn all of the \$20.00 I receive?" Only a misunderstanding of the law, however, would permit the acceptance of the official minimum rate as a standard for rates of skilled labor. No enlightened business agent would accept such an argument.

CHAPTER VIII

CONCLUSION

It is the purpose of this chapter to summarize the chief lessons to be learned from the Massachusetts experiment and to evaluate the accomplishments of the law.

Is a mandatory law necessary to secure acceptance of the minimum rates? Our conclusion on this point is that it is not. The minimum wage rates in Massachusetts have been generally accepted. The number of

women not receiving wages in conformity with the decrees has been a small fraction of all women covered. The largest number of cases of non-compliance that the Commission has had on hand at any one time has not been over 3000. The total number of women under minimum rates, however, is close to 85,000. It is true that successful enforcement depends to a great extent on conditions beyond the control of the commission administering the law. When prices and wages generally

¹⁴⁴ The Secretary-Treasurer of the state branch of the American Federation of Labor has gone so far as to declare emphatically for a mandatory law. He has said:

"If the Minimum Wage Commission and its officers are going to do the real work they are supposed to do, we ought to put teeth in that law so they can go out and enforce the decrees upon everybody they investigate and give a decree

upon, and that is the attitude of the workers in this Commonwealth and we want to be so recorded." (Special Commission on . . . the Minimum Wage, Testimony taken at the first hearing. Unpublished manuscript.)

¹⁴⁵ Personal letter to the author.

are rising, compliance will be secured easily. When prices and wages are falling, compliance will be secured with difficulty, if at all. The relative height of the rates is another important element in securing compliance. If the employers can bargain so successfully in the wage board deliberations as to secure a low rate, enforcement will be easy. If the employes sway the board and a relatively burdensome rate is recommended, enforcement will be difficult. Compliance with the rates under a recommendatory law apparently will not be universal, if the rates mean any considerable increase in the wage-bill. The incentives to meet the rates and thus avoid publicity vary with different employers. With some the rates are practically mandatory, with others merely advisory.

Most persons in touch with conditions in Massachusetts are not discouraged at the failure to secure complete compliance. They apparently feel that public opinion is behind the law and will secure acceptance of the rates on the part of the great majority of employers. The Acting-Director said recently;¹⁴⁶

The great majority of employers have complied and are complying with the provisions of the decrees. This is because the decrees have been recognized to be reasonable in the requirements made; because in the majority of instances they have been based on the unanimous or practically unanimous findings of the wage boards for the occupations considered—wage boards made up of representatives of employers and employes in the occupations in question—and because there has been developed the force of public opinion to support the work.

The fact that the law rests for its enforcement mainly upon public opinion does not mean that it is unenforceable, quite the

contrary. In the last analysis, the enforcement of all laws rests upon public opinion.

A question frequently asked is: Has the law relieved those evils which called it forth in 1912? As we have already noted repeatedly a definite statistical answer to this question is not possible. It cannot be denied that those conditions have changed. The difficulty arises in estimating the part played by the minimum rates. There is little to be learned from a study of wage changes following most of the decrees issued during the abnormal conditions from 1916 to 1920. It is impossible accurately to estimate the extent to which wages would have advanced if there had been no minimum rates. Indications are that they would have risen nearly if not entirely as much if the minimum wage law had not existed. On the other hand, while it may be true that in a period of three or four years, the effect of the rates are lost in the general industrial upheaval, if we could have considered a shorter period, we might have seen that the rates did cause a sudden increase in wages. It is true, however, that the official rates did not cause changes in wages of sufficient magnitude to be evident in the more important changes that were occurring.

Confining our attention to the few decrees issued before the general advance in wages and to those issued after 1920, we find definite evidence that the minimum rates have exerted some influence. The strength of this influence varies with the peculiarities of each industry and with the industrial conditions prevalent at the time the decrees become operative. It is significant that in all cases where we have adequate information we find evidences of the effects of the rates. They have afforded some measure of protection as a lower limit below which wages should not fall. The minimum wage

¹⁴⁶ Letter to the Woman's Bureau of the Federal Department of Labor. Unpublished manuscript.

law has undoubtedly helped to improve the condition of working women and girls in Massachusetts.

It is equally certain that the law has failed to accomplish all that its proponents hoped. It has been a big disappointment to some of the most idealistic of its friends. They feel that the law has been very seriously handicapped by obstacles not at all inherent in minimum wage legislation. These obstacles must be remembered when appraising the results of the law. Probably the most serious of these obstacles has been the opposition of the employers. This opposition has been reflected also in the lack of support given the law by the governing officials of the Commonwealth. The attitude of employers is of peculiar significance because of the recommendatory feature of the law. Successful operation requires much more co-operation from the employers than would a mandatory law.

The law had hardly begun operation before attacks on it appeared. In May, 1915, the Industrial Betterment Committee of the National Association of Manufacturers made an extensive report attacking the legislative minimum wage.¹⁴⁷ The following year another bitter attack appeared in a pamphlet entitled "The Minimum Wage a Failing Experiment."¹⁴⁸ Litigation from 1916 to 1918 called forth a solid front of employers against the law. We find the greatest array of employers actively opposing the law at the hearings of the Recess Commission during 1921 and 1922. Extensive lobbying against the law had been practiced continually since its inception, but not so vigorously as at this time. The early opposition did not seem to have abated. Practically every manufacturers' association in

Massachusetts sent a representative to appear against the law.¹⁴⁹ Almost every employer in Massachusetts could find representation in some one or more of the associations if he wished. Many employers also appeared individually. Counsel for the Massachusetts Industrial Protective Association, an organization composed of those industries opposed to the law, stated that ninety-five per cent of the manufacturers from all branches of industry were in favor of repealing the law.¹⁵⁰ It is small wonder that the Recess Commission concluded:¹⁵¹

There has been given in the various hearings which the Commission has held a great amount of testimony in opposition to the Minimum Wage Law and in favor of its repeal. . . . With almost united opposition of employers throughout the Commonwealth, the Commission is compelled to recognize the fact that the Minimum Wage Law is extremely unpopular among most employers in the Commonwealth.

From time to time in reviewing the operation of the law we have noted instances of this opposition. A few others should be mentioned. It was largely due to them that the large number of checks on arbitrary action

¹⁴⁹ Among the employers' associations appearing against the law were the following: Associated Industries of Massachusetts, Massachusetts Industrial Protective Association, Massachusetts Retail Merchants' Association, Employers' Association of Eastern Massachusetts, the Boston branch of the National Metal Trades' Association, Southbridge Manufacturers' Association, Arkwright Club, Fall River Cotton Manufacturers' Association, Manufacturers' Association of Hampden County, Berkshire County Manufacturers' Association, the Paper Box Makers, the Chambers of Commerce of Boston, Attleboro, Lynn, Worcester, and Springfield, and the New England Manufacturing Confectioners' Association.

¹⁵⁰ Special Commission on . . . the Minimum Wage, Testimony taken at the seventh hearing. Unpublished manuscript.

¹⁵¹ Special Commission on . . . the Minimum Wage, Report, pp. 18, 20-21.

¹⁴⁷ *Supra*, p. 58.

¹⁴⁸ *Ibid.*

by the commission were written into the statute. Their opposition stripped the law of its mandatory feature. A thorough investigation was also made compulsory before a wage board could be formed. If the industry were not in a prosperous condition, the cost of living was not to be the determining factor in establishing rates. A public hearing was provided. An employer had the privilege of a judicial review. Certainly, the employers were well protected.

The most serious handicap during the early years of the law was the challenge of its constitutionality, also due to the employers. Until this issue was settled, the commission was greatly handicapped in developing a vigorous program of enforcement. The commission had no clearly recognized right to inspect the books of the employers. The fact of compliance could not be ascertained in all cases. Furthermore, when the recalcitrant employers could be discovered, the commission dared not blacklist them because the commissioners might be personally responsible in libel suits. Wage board work was also held up. Adequate appropriations were opposed. The legislature did not pass needed amendments.

The case which decided the question originated when the laundrymen refused to permit the agents of the commission to investigate their books for the purpose of determining compliance with the decree of September 1, 1915. The commission went to the courts for a subpoena, which was resisted by the laundrymen on the grounds that the law was unconstitutional. In 1918 Chief Justice Rugg of the Massachusetts Supreme Judicial Court handed down a decision affirming the validity of the law.¹⁵² The court distinguished this type of law from those which provide

for enforcement through fines and imprisonment. The court declared that the law was not mandatory as to the rates of wages:—

It contains no words of compulsion upon either employer or employee. It does not restrain freedom of action by either employer or employee as to the wages to be paid or received. Any woman and her employer may make and enforce any agreement respecting compensation for her labor unhampered by any provision of the act. There is no constraint affecting property or conduct.

Recent litigation has also impeded the commission in the prosecution of its work. In the earlier case Justice Rugg refused to pass on the validity of that section of the law which requires a newspaper to publish at its regular rates the findings of the commission. In 1923 a prominent Boston paper refused to publish a notice to the effect that a certain store was not paying the designated minimum rates. The case eventually reached the Supreme Judicial Court of Massachusetts, which declared this section of the law unconstitutional.¹⁵³ Justice Rugg delivered this opinion also. The state cannot compel a newspaper to accept for publication the findings of an administrative body like the Minimum Wage Commission.

One encouraging feature about this decision was the affirmation of the constitutionality of the other sections of the law. In view of the decision in the

¹⁵² *Commonwealth v. The Boston Transcript Co.*, 249 Mass. 4. Justice Rugg observed: "The effect of the statute is to compel the publisher of any newspaper, selected by the public board established by the statute, to print the matter offered by that board in accordance with the statute, at the rate specified in the statute. The publisher has no option. . . . His preference, desires or financial advantage or detriment are entitled to no consideration under the statute. . . . No discussion is required to demonstrate that s. 12 curtails in substantial particulars the right of the publisher of the newspaper to contract about his affairs."

¹⁵³ *Holcombe et al. v. Creamer et al.*, 231 Mass. 99.

District of Columbia case, there had been serious questioning even of a recommendatory law. The Justice dispelled these doubts with the statement that the decision in *Adkins v. Children's Hospital* had not affected the decision in *Holcombe v. Creamer*. "The statutes under consideration in these two decisions differ radically in a fundamental provision," he said.

The charge is openly and frequently made in Massachusetts that the employing interests have a strong influence at the State House and that this is one of the reasons for the lack of more conspicuous results of the law. Any author should hesitate before repeating such charges as they are impossible of proof, but they are so widespread that some mention must be made of them. It is stated, for instance, that several appointees to the commission have been made, not because of their fitness as administrators of a minimum wage law, but because of their abilities as custodians of the industrial interests of the state. The second chairman was a clergyman and while possessing undoubted abilities in his chosen profession did not possess the training to make him a vigorous commissioner. His successor was a textile manufacturer, an employer, and has publicly condemned the law. The reorganization of the various labor and industrial bureaus in 1919 also seems to have resulted greatly to the disadvantage of the law. The minimum wage commissioners are legally also the Board of Conciliation and Arbitration. While the duties connected with this latter office undoubtedly serve to acquaint the commissioners with wage matters, the conclusion is inescapable that the attention of this board has been directed toward the conciliation work to the detriment of minimum wage work. There also seems to be some diffusion of responsibility in the

organization of the department at present. It is frequently difficult to decide just who is responsible in certain cases—the Acting-Director, the Board of Conciliation and Arbitration, the Commissioner of the department, or the five commissioners as a whole. The creation of full-time, salaried positions has inevitably caused the seeking of these places as political jobs.

Several illustrations could be given of the apparent lack of vigor with which the law is now being administered. There are several industries which might well be covered by rates. The number of workers assisting the Acting-Director is far too few. The publication of bulletins and reports has been discontinued. Meager as the appropriation of the legislature for minimum wage work is, several thousand dollars are annually turned back to the state treasury unused. It has been charged even that the commission has been lax in publishing recalcitrant employers. It should be remembered that the removal of legal and constitutional obstacles to successful operation of the law has made the statute much easier to enforce now than during the early years. It certainly is a fact that the present administration is in a much better position to make the law really effective if it chooses than were its predecessors. The attitude of the present commission is the chief reason apparently for the existence of an organization known as the Minimum Wage Defense Committee composed of many leading citizens of the state.

It is probably true, however, that the vigor of the opposition of the employers is not a good indication of the number of those engaged. It is very easy for an association to pass a resolution against such a law and for the secretary or president to appear against it. It is a significant fact that many of those appearing against the law before the

Recess Commission had no good reasons for so doing. From my own inquiries among employers, I should say that the most prevalent attitude is essentially one of indifference. Nominally, the average employer is antagonistic. As a matter of fact, he does not care enough about the law to take a definite stand that is of much significance. Time and again employers have admitted that they did not know what the minimum rate was in their industry. This same conclusion was reached by an investigator for the Federal Bureau of Labor Statistics in 1920. He says:¹⁴ "In the majority of cases the employers interviewed expressed but little interest in the law."

A review of the wage board system reveals another reason for the ineffectiveness of some of the rates. The boards have found it impossible to determine uniform rates. No two boards have made the same estimate of the cost of living. The rates also have not reflected the loss of income due to unavoidable unemployment. They have been revised so infrequently that many of them have been meaningless. Delay in the determination of the rates has caused some of them to be out-of-date by the time they were issued. The cost of living has too frequently been disregarded because of alleged inability to pay wages on such a basis.

The suggestion has been made to give the commission power to determine rates directly or at least the power to revise the findings of the boards. More accurate rates could undoubtedly be determined by the commission but it is doubtful if this advantage would compensate for the losses sustained by abolition of the wage board system. It might be well, however, to give the commission power to revise decrees as

the cost of living changes. The Massachusetts law originally did not give the commission authority even to reconvene a wage board without a petition from either the employers or employees. Many rates became ludicrously low. In the early part of 1920, for instance, the cost of living was estimated in no case to be less than \$15.00 a week. Yet nine of the twelve decrees then in force recommended normal rates less than \$12.00. The commission has since been given the power to reconvene a board on its own initiative and it might be well to give the commission power to revise a rate without consulting the board at all.

It would be extremely shortsighted to judge this type of law by its effect on wages alone. The law has performed a real service to employers as well as employees. This is a phase of minimum wage legislation which is too frequently overlooked. The legal minimum wage would be in much higher repute in this country if the employers fully appreciated its possibilities. It is of service to the employer not only because of the indirect advantages through having a more contented and more efficient working force, but also because it exerts a stabilizing influence on wages. There certainly are occasions when it is possible to reduce wages too low. An individual employer may find it possible to pay wages which are not in harmony with the market conditions of labor in the industry as a whole. These unskilled and unorganized women are greatly restricted in seeking the best market for their labor. Their ignorance, their racial and family ties, their mental inertia, and their fear of the loss of even one weekly pay envelope prevent that flow of labor from one factory to another which is necessary for the attainment of a unified market. A fact which is hardly possible of over-em-

¹⁴ Bureau of Labor Statistics, *Minimum Wage Laws of the United States*, Bull. No. 285, p. 150.

phasis is the great diversity of wages in different establishments operating under essentially similar competitive conditions. A minimum wage which prevents an employer from taking advantage of temporary maladjustments in the labor supply acts as a stabilizing force over the labor market. It prevents fly-by-night concerns from undercutting the well established firms which realize the advantages of paying adequate wages. It compels these ephemeral companies to compete on the same conditions which the permanently established firms have found necessary to adopt.

Another important accomplishment to be placed to the credit of the Massachusetts law is the education of the public. The industrial condition of the lowest stratum of female wage-earners has received wide-spread publicity. Methods of wage determination are made known. The importance of rising prices to these workers is perceived. An enlightened public opinion is fostered. It is to be hoped that the present commission will realize these services of the law and do all in its power to promote them.

The dire results predicted of minimum wage legislation have not occurred to a serious degree. Discharges have not been common. The minima have not become the maxima. The industries do not seem to have been injured seriously. This may be due in part to the recommendatory feature of the Massachusetts law. Such a law possesses a flexibility in particular cases which a mandatory one does not. If a rate is too burdensome for an individual employer, he may disregard it. The interests of both the employers and employees are protected against a too harsh application of the

rates. It is significant that the Recession Commission recommended that the law be continued in its present form for at least five years more. The members of this commission were not convinced of the superiority of a mandatory law.

A final consideration should be mentioned in closing this work. This is the possibility that our old idea of minimum wage legislation may have become outgrown. The cessation of the agitation for minimum wage legislation has not been due entirely to the caprice of public opinion and the discouragement of the Supreme Court. With restriction of immigration, the impetus which the war demand gave to wages, and the educative work already performed, the need for mandatory cost-of-living wages has greatly diminished in Massachusetts as well as in other states. Certainly conditions similar to those found by the Investigating Commission in 1911 are very rare.

But there is a great opportunity to promote better industrial conditions for the more poorly paid of our industrial workers, to establish a lower limit below which wages shall not go, to stabilize wages throughout an entire industry, and to foster a sentiment of co-operation and good-will in place of hostility and suspicion. It may very well be that the most fruitful action which the government can take in the regulation of wages is not the fixing of definite minimum rates, but is the encouragement of what amounts to collective bargaining. The state can provide the machinery for those industries which have shown themselves to be incapable of settling their difficulties if left alone. In the last analysis this is virtually what is being done in Massachusetts.

APPENDIX I

The Commonwealth of Massachusetts

DEPARTMENT OF LABOR AND INDUSTRIES

LAW REGARDING THE ESTABLISHMENT OF MINIMUM WAGES FOR WOMEN AND MINORS

(The functions of the Minimum Wage Commission were by an act of 1919 transferred to the Department of Labor and Industries, and vested in the three associate commissioners of the department, who also constitute the Board of Conciliation and Arbitration.)

CHAPTER 151. GENERAL LAWS

SECTION 1. The board of conciliation and arbitration of the department of labor and industries in performing the duties required by this chapter shall be known as the minimum wage commission, in this chapter called the commission. It shall investigate the wages paid to female employees in any occupation, if it has reason to believe that the wages paid to a substantial number of such employees are inadequate to supply the necessary cost of living and to maintain the worker in health.

SECTION 2. If after such investigation the commission is of the opinion that in the occupation in question the wages paid to a substantial number of female employees are inadequate to supply the necessary cost of living and to maintain the worker in health, it shall establish a wage board consisting of an equal number of representatives of employers in the occupation in question, and of persons to represent the female employees in said occupation, and of one or more disinterested persons appointed by it to represent the public; but the representatives of the public shall not exceed one-half of the number of representatives of either of the other parties. The commission shall give notice to employers and employees in said occupation by publication or otherwise of its determination to establish a wage board and of the number of representatives of employers and of employees to be chosen therefor, and shall request that said employers and employees, respectively, nominate such representatives by furnishing names to it.

The representatives of employers and employees shall be selected by the commission from names furnished by the employers and by the employees, respectively; provided, that the same are furnished within ten days after such request; and provided, further, that at least twice as many names respectively are furnished as are required. If less than this number of names are furnished for representatives, either of employers or of employees, at least one-half the names so furnished shall be selected, and the remaining places necessary may be filled by the commission by appointments made directly from employers, including officers of corporations, associations and partnerships, or from employees in the occupation, as the case may be. The commission shall designate as chairman one of the representatives of the public, and shall make

Transfer of functions of Minimum Wage Commission to associate commissioners of the Department of Labor and Industries.

G. L. 23, § 7.

Commission required to investigate wages of women.

1912, 706, § 3.
1919, 350, § 72.
231 Mass. 99.

Establishment of wage boards.

1912, 706, § 4.
1914, 368, § 1.
1919, 72; 350, § 71.
1920, 48.
4 Op. A. G.
447, 494.

Selection of members.

Appointments by Commission.

Authority of Commission over boards.

rules and regulations governing the selection of members and the modes of procedure of the wage boards, and shall exercise exclusive jurisdiction over all questions arising with reference to the validity of the procedure and of the determinations of the wage boards. The members of wage boards shall be compensated at the same rate as jurors, and they shall be allowed the necessary traveling and clerical expenses incurred in the performance of their duties, these payments to be made from the appropriation for the expenses of the commission. The commission may fill vacancies arising in a duly constituted wage board by appointing a sufficient number of suitable persons to complete the representation of the employers, employees or public, as the case may be.

Filling
vacancies.

SECTION 3. The commission may transmit to each wage board all pertinent information in its possession relative to the wages paid in the occupation in question. Each wage board shall take into consideration the needs of the employees, the financial condition of the occupation and the probable effect thereon of any increase in the minimum wages paid, and shall endeavor to determine the minimum wage, whether by time rate or piece rate, suitable for a female employee of ordinary ability in the occupation in question, or for any or all of the branches thereof, and also suitable minimum wages for learners and apprentices and for minors under eighteen. When a majority of the members of a wage board shall agree upon minimum wage determination, they shall report such determination to the commission, together with the reasons therefor and the facts relating thereto.

Duties of
wage boards.
1912, 706, § 5.
1913, 673, § 1.
4 Op. A. G. 404.

Report of
determina-
tions.

Review of
report by
Commission.

1912, 706, § 6.
1913, 673, § 2.
1914, 368, § 2.
Op. A. G.
(1919) 6.

Public
hearing.

SECTION 4. Upon receipt of a report from a wage board, the commission shall review the same, and may approve or disapprove any or all of the determinations recommended, or may recommit the subject to the same wage board or to a new one. If the commission approves any or all of the determinations of the wage board it shall, after not less than fourteen days' notice to employers paying a wage less than the minimum wage approved, give a public hearing to such employers, and if, after such public hearing, the commission finally approves the determination, it shall enter a decree of its findings and note thereon the names of employers, so far as they may be known to it, who fail or refuse to accept such minimum wage and agree to abide by it. The commission shall thereafter publish at such times and in such manner as it may deem advisable a summary of its findings and of its recommendations. It shall also at such times and in such manner as it shall deem advisable, publish the facts, as it may find them to be, as to the acceptance of its recommendations by the employers engaged in the industry to which any of its recommendations relate, and may publish the names of employers whom it finds to be following or refusing to follow such recommendations. An employer who files a declaration under oath in the supreme judicial or superior court to the effect that compliance with the recommendation of the commission would render it impossible for him to conduct his business at a reasonable profit shall be entitled to a review of said recommendation by the court under the rules of equity procedure. The burden of proving the averments of said declaration shall be upon the complainant. If, after such review, the court finds the averments of the declaration to be sustained, it may issue an order restraining the commission from publishing the name of the complainant as one who refuses to comply with its recommendations. But such review, or any order issued by the court thereupon, shall not be an adjudication affecting the commission as to any employer other than the

Entering
decree.

Publication
of findings.

Publication
of names of
employers.

Exemption in
certain cases.

complainant, and shall in no way affect its right to publish the names of those employers who comply with its recommendations. The type in which the employers' names shall be printed shall not be smaller than that in which the news matter of the newspaper is printed. The publication shall be attested by the signature of at least a majority of the commission.

SECTION 5. Whenever a minimum wage rate has been established in any occupation, the commission may, upon petition of either employers or employees, or if in its opinion such action is necessary to meet changes in the cost of living may without such petition, reconvene the wage board or establish a new one, and any recommendation made by such wage board shall be dealt with in the same manner as the original recommendation of a wage board.

SECTION 6. For any occupation in which a minimum time rate only has been established, the commission may issue to any woman physically defective a special license authorizing the employment of the licensee for a wage less than the legal minimum wage; provided, that it is not less than the special minimum wage fixed for that person.

SECTION 7. The commission may at any time inquire into the wages paid to minors in any occupation in which the majority of employees are minors, and may, after giving public hearings, determine minimum wages suitable therefor. When the commission has made such a determination, it may proceed in the same manner as if the determination had been recommended to it by a wage board.

SECTION 8. Every employer of women and minors shall keep a register of the names, addresses and occupations of all women and minors employed by him, together with a record of the amount paid each week to each woman and minor, and if the commission shall so require, shall also keep for a specified period, not exceeding six months, a record of the hours worked by such employees, and shall, on request of the commission or of the department of labor and industries, permit the commission or any of its members or agents, or the department or any duly accredited agent thereof, to inspect the said register and to examine such parts of the books and records of employers as relate to the wages paid to women and minors, and the hours worked by such employees. Any employer failing to keep a register or records as herein provided, or refusing to permit their inspection or examination, shall be punished by a fine of not less than five nor more than fifty dollars. The commission may also subpoena witnesses, administer oaths and take testimony and require the production of books and documents. Such witnesses shall be summoned in the same manner and be paid by the commonwealth the same fees as witnesses before the superior court.

SECTION 9. Upon request of the commission, the department of labor and industries shall cause to be gathered such statistics and other data as the commission may require, and the cost thereof shall be paid out of the appropriation made for the expenses of the commission in reference to the minimum wage.

SECTION 10. No employer shall discharge or in any other manner discriminate against any employee because such employee has testified, or is about to testify, or has served or is about to serve upon a wage board, or is or has been active in the formation thereof, or has given or is about to give information concerning the conditions of such employee's employment, or because the employer believes that the employee may testify, or may serve upon a wage board, or may give in-

Revision of
decrees.
1912, 706, § 8.
1920, 387.

Special
license.
1912, 706, § 9.
1919, 350, § 72.
Op. A. G.
(1918) 7.

Establish-
ment of
minimum
rates for
minors.
1912, 706, § 10

Records em-
ployers are
required to
keep.
1912, 706, § 11.
1913, 330.
1914, 368, § 4.
1919, 76; 350,
§ 72.

Inspection
by agents of
Commission
authorized.

Penalty for
failure to
keep records
and to
permit their
inspection.

Statistical
information.
1912, 706, § 12.
1919, 350, § 69.

Discrimina-
tion against
employees for
wage board
work pro-
hibited.
1912, 706, § 13.
1913, 673, § 3.
1914, 368, § 5.

formation concerning the conditions of the employee's employment, in any investigation or proceeding relative to the enforcement of this chapter. Whoever violates this section shall be punished by a fine of not less than two hundred nor more than one thousand dollars.

SECTION 11. The commission shall from time to time determine whether employers in each occupation investigated are obeying its decrees, and shall publish, in the manner provided in section four the name of any employer whom it finds to be violating any such decree.

SECTION 12. Any newspaper refusing or neglecting to publish the findings, decrees or notices of the commission at its regular rates for the space taken shall be punished by a fine of not less than one hundred dollars.

SECTION 13. No member of the commission, and no newspaper publisher, proprietor, editor or employee thereof, shall be liable to an action for damages for publishing the name of any employer as provided for in this chapter, unless such publication contains some wilful misrepresentation.

SECTION 14. The commission may require employers in any occupation to post notices of its hearings or of nominations for wage boards, or of decrees that apply to their employees, in such reasonable way and for such length of time as it may direct. Whoever refuses or fails to post such notices or decrees, when so required, shall be punished by a fine of not less than five nor more than fifty dollars. The department of labor and industries shall enforce this section.

SECTION 15. The commissioner of labor and industries shall make an annual report of the acts of the commission in performing the duties required by this chapter.

Penalty for discrimination.

Inspection to determine compliance with decrees required.

1912, 706, § 14.
231 Mass. 99.

Penalty for newspapers refusing to publish findings.

1912, 706, § 15.
231 Mass. 99.

Freedom from action for damages for publication.

1912, 706, § 16.
231 Mass. 99.

Posting notices required.

1915, 65.
1919, 77, § 2;
350, § 69.

Annual report.

1912, 706, § 17.
1919, 350,
§§ 8, 71.

APPENDIX II

MINIMUM WAGE DECREES¹ IN FORCE IN MASSACHUSETTS ON NOVEMBER 30, 1926

Kind of Work Covered	Workers Affected		Wage Rates	Qualifications	Date	
	Class	Age			Decree Entered	Decree Effective
Men's clothing and raincoat occupation ² (Revised decree)	Experienced females of ordinary ability	Any	\$15 weekly	To be deemed "experienced" after one year's apprenticeship in the occupation. An employee, irrespective of age, who has been employed in the occupation for at least three months, shall be eligible for the minimum recommended for learners and apprentices. For females of less than ordinary ability wage fixed by special license	Dec. 27, 1919	Feb. 1, 1920
	Learners and apprentices. 3 to 12 months experience	Any	\$10 weekly			
	All others	Any	\$7 weekly			
Corset occupation	Experienced females of ordinary ability	17 or over	\$13 weekly	To be deemed "experienced" after reaching 17 years of age and having one year's experience in the occupation. For females of less than ordinary ability wage fixed by special license	Dec. 27, 1919	Mar. 1, 1920
	Learners and apprentices	(1) 17 or over (2) Less than 17	\$10 weekly \$8 weekly			
Knit goods (other than standard lines of hosiery and underwear, but including knit athletic goods)	Experienced females of ordinary ability	Any	\$13.75 weekly	To be deemed "experienced" after having 40 weeks' experience in the occupation	Mar. 13, 1920	July 1, 1920
	All others	Any	\$8.50 weekly			
Office and other building cleaners' occupation ³ (Revised decree)	Females of ordinary ability	Any	\$15.40 weekly or \$0.37 hourly	Full time employment means 42 hours or more a week. For females of less than ordinary ability wage fixed by special license	Dec. 30, 1920	Feb. 1, 1921

¹ In all, 32 decrees have been entered since the enactment of the minimum wage law in 1912, effective July 1, 1913. The 12 decrees entered prior to December 1, 1919 have been superseded by new decrees. One decree, that for the women's clothing, has been revised twice. In two instances, revision of rates was accompanied by changing lines formerly covered by separate decrees under a single decree. The present millinery decree includes the lines formerly covered by the retail millinery decree and the wholesale millinery decree. Similarly the decree for canning and preserving and minor confectionery covers the scope of the former decree for canning and preserving establishments and that for establishments manufacturing minor lines of confectionery and miscellaneous food preparations.

² The rate recommended by The Men's Clothing and Raincoat Board (reconvened) supersedes the \$9 rate entered August 31, 1917.

³ The rate recommended by the Office and Other Building Cleaners Wage Board (reconvened) supersedes the rates of 30 cents and 26 cents hourly entered January 27, 1919.

MINIMUM WAGE DECREES: IN FORCE IN MASSACHUSETTS ON NOVEMBER 30, 1920—Continued

Kind of Work Covered	Workers Affected		Wage Rates	Qualifications	Date	
	Class	Age			Decree Entered	Decree Effective
Women's clothing factories (cloak, suit, skirt, dress and waist shops) * (Second revised decree)	Experienced females of ordinary ability	18 or over	\$14 weekly	To be deemed "experienced" after reaching the age of 18 years and having one and a half years' experience in the occupation. For the purpose of computing experience a year's work shall consist of not less than 35 weeks	Apr. 27, 1922	May 15, 1922
	Learners and apprentices	(1) 18 or over (2) Less than 18	\$11 weekly \$9 weekly			
Paper box occupation (including set-up, corrugated and folding boxes) * (Revised decree)	Experienced females of ordinary ability	(1) 18 or over (2) Under 18	\$13.50 weekly \$12.00 weekly	To be deemed "experienced" after reaching the age of 18 and having one year's experience in the occupation	Apr. 27, 1922	May 15, 1922
	Learners and apprentices	(1) 18 or over (2) Under 18	\$10.00 weekly \$8.50 weekly			
	Experienced females of ordinary ability	19 or over	\$14 weekly			
Retail stores * (Revised decree)	Learners and apprentices	(1) 18 or over (2) Less than 18	\$12 weekly \$10 weekly	To be deemed "experienced" when employed in the occupation one year after reaching the age of 18 years	Apr. 27, 1922	June 1, 1922
	Experienced females of ordinary ability	16 or over	\$13.75 weekly			
Men's furnishings factories (manufacturers of men's and boys' shirts, overalls and other workmen's garments, men's neckwear and other furnishings, and men's, women's and children's garters and suspenders) * (Revised decree)	Learners and apprentices:	(1) 16 or over	\$12 weekly \$10 weekly \$9 weekly	To be deemed "experienced" after reaching the age of 16, and being employed in the occupation for at least 52 weeks	Apr. 27, 1922	June 1, 1922
	(1) 26-52 weeks' experience (2) 13-26 weeks' experience (3) Less than 13 weeks' experience	(1) 16 or over	\$12 weekly \$10 weekly \$8 weekly			
	(1) 52 weeks' or over (2) 26-52 weeks' experience (3) Less than 26 weeks' experience	(2) Less than 16				

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Muslim underwear, petticoat, apron, kimono, house dress, women's neckwear and children's clothing factories. ² (Revised decree)	Experienced females of ordinary ability	16 or over	\$13.75 weekly	To be deemed "experienced" after one year in the occupation and 52 weeks, 26 of which shall have been in the present employer's shop	Apr. 27, 1922	June 1, 1922
Laundry ³ (Revised decree)	Learners and apprentices: (1) 26-52 weeks' experience (2) 13-26 weeks' experience (3) Less than 13 weeks' experience	(1) 16 or over (2) Less than 16	\$12 weekly \$10 weekly \$8 weekly	To be deemed "experienced" after five months' employment in the occupation	May 19, 1922	July 1, 1922
	(1) 52 weeks or over (2) 26-52 weeks' experience (3) Less than 26 weeks' experience		\$12 weekly \$10 weekly \$7.50 weekly			
	Experienced females of ordinary ability	Any	\$13.50 weekly			
Brush industry ⁴ (Revised decree)	Learners and apprentices: (1) 3-3 months' experience (2) Less than 3 months' experience	Any	\$12.50 weekly \$11 weekly	To be deemed "experienced" after one year's employment in the occupation	Jan. 25, 1923	Mar. 1, 1923
	Experienced females of ordinary ability	Any	\$13.02 for a week of 48 hours			
	Learners and apprentices: (1) For the second 6 months (2) For the first 6 months	Any	\$12 for a week of 48 hours \$9.60 for a week of 48 hours			
Druggists' preparations	Experienced females of ordinary ability	18	\$13.20 for a week of 48 hours	To be deemed "experienced" after one year in the occupation and after reaching 18 years of age	Sept. 27, 1923	Jan. 2, 1924
	Learners and apprentices: (1) For first six months (2) For second six months	Any	\$9.60 for a week of 48 hours \$10.60 for a week of 48 hours			

¹The rate recommended by the Women's Clothing Wage Board (second reconvened) supersedes the \$15.25 rate entered May 6, 1920, which in turn superseded the \$8.75 rate entered September 25, 1916.

²The rate recommended by the third Paper Box Wage Board supersedes the \$15.50 rate entered May 26, 1920.

³The rate recommended by the Retail Store Wage Board (reconvened) supersedes the \$40 rate entered September 15, 1915.

⁴The rate recommended by the Men's Furnishings Wage Board (reconvened) supersedes the \$9 rate entered October 26, 1917.

⁵The rate recommended by the Muslim Underwear Wage Board (reconvened) supersedes the \$9 rate entered July 1, 1918.

⁶The rate recommended by the Laundry Wage Board (reconvened) supersedes the \$8 rate entered July 1, 1915.

⁷The rate recommended by the Brush Wage Board (second) supersedes the \$0.165 hourly rate entered August 15, 1914.

MINIMUM WAGE DECREES: IN FORCE IN MASSACHUSETTS ON NOVEMBER 30, 1926—Continued

Kind of Work Covered	Workers Affected		Wage Rates	Qualifications	Date	
	Class	Age			Decree Entered	Decree Effective
Canning and preserving and minor lines of confectionery occupation ¹¹ (Decree for two lines revised and combined)	Experienced females of ordinary ability	18 and over	\$13 weekly	To be deemed "experienced" after six months in the particular factory	Nov. 3, 1924	Apr. 1, 1925
	Inexperienced females	18 and over	\$12 weekly			
	Experienced females	16-18 years	\$11 weekly			
	Inexperienced females	16-18 years	\$10 weekly			
	Experienced females	Under 16	\$9 weekly			
	Inexperienced females	Under 16	\$8 weekly			
Bread and Bakery Products	Experienced females of ordinary ability	Any	\$13 weekly	An employee shall be deemed of ordinary ability after 6 months experience in the occupation, irrespective of age. For females of less than ordinary ability wage fixed by special license	Feb. 17, 1925	May 1, 1925
	Learners and apprentices:	16 or over Under 16	\$11 weekly \$9 weekly			
Millinery occupation (combined) ¹² (Decree for two lines revised and combined)	Experienced females of ordinary ability	19 or over	\$13 weekly	To be deemed "experienced" after four seasons of 16 weeks each, including two spring seasons and two fall seasons, or in the case of employees whose work is not of seasonal character, at least two years. For females of less than ordinary ability, wage fixed by special license	Mar. 24, 1925	July 1, 1925
	Learners and apprentices:	Under 19	\$12 weekly			
	(a) 4 season's experience or 2 years	Any	\$10.50 weekly			
	(b) 3 season's experience, or 63 weeks within a period of not less than 78 weeks	Any	\$9 weekly			
	(c) 2 season's experience, or 42 weeks within a period of not less than 52 weeks	Any	\$7.50 weekly			
	(d) 1 season's experience, or 21 weeks within a period of not less than 26 weeks	Any	\$6 weekly			
	(e) All others					

MINIMUM WAGE DECREES¹ IN FORCE IN MASSACHUSETTS ON NOVEMBER 30, 1926—*Concluded*

Stationery Goods and Envelopes	Experienced females of ordinary ability	18 or over	\$13.75 weekly	To be deemed of ordinary ability after reaching the age of 18 years and having had at least one year's experience in the particular plant of employment. For females of less than ordinary ability, wage fixed by special license	Oct. 27, 1925	Jan. 1, 1926
	Learners and apprentices: With 12 months experience in a particular shop	Under 18	\$12 weekly			
Candy occupation ¹² (Revised decree)	Learners and apprentices:	16 or over	\$11 weekly	To be deemed of ordinary ability after having at least one year's experience in a candy factory	Jan. 26, 1926	Mar. 1, 1926
	Experienced females of ordinary ability	Under 16	\$9 weekly			
	Learners and apprentices:	Any	\$13 weekly			
	Experienced females of ordinary ability	Any	\$9 weekly			

¹¹ The rate recommended by the Canning and Preserving and Minor Confectionery Wage Board supersedes the \$11.00 and \$12.00 rates for the Canning and Preserving Occupation and the Minor Lines of Confectionery and Food Preparations Occupation entered July 21, 1919 and October 4, 1921 respectively.

¹² The rate recommended by the Millinery Wage Board (reconvened) supersedes the \$10.00 and \$11.00 rates for the Retail Millinery and Wholesale Millinery Occupation entered July 1, 1918 and November 30, 1918, respectively.

¹³ The rate recommended by the Candy Wage Board (reconvened) supersedes the \$12.50 rate entered July 19, 1919.

APPENDIX III

ITEMIZED COST OF LIVING BUDGETS

Adopted by Massachusetts Wage Boards, December 1, 1919 to November 4, 1925

Items	Brush Board ¹ (January, 1914)	Knit Goods Board (Fall, 1919)	Women's Clothing Board, reconvened (Winter, 1920)	Paper Box Board ² (Spring, 1920)	Minor Confectionery Board (Spring, 1921)	Brush Board, reconvened (Winter, 1921-1922)	Women's Clothing Board, reconvened (Winter 1921-1922)	Muslin Underwear Board, reconvened (Winter, 1921-1922)	Brush Board, second (Winter, 1922)	Druggists' Compounds (Summer, 1923)	Canning, Preserving and Minor Lines of Confectionery (Combined and reconvened) Fall, 1924	Millinery Board (Combined and reconvened) Winter, 1924-1925	Bread and Bakery Board (Winter, 1924-1925)	Stationery Goods and Envelopes Board (Summer, 1925)	Candy Board, reconvened (Fall, 1925)
Board and lodging.....	\$5.25	\$5.50	\$9.50	\$9.00	\$5.50	\$9.00	\$5.50	\$5.50	\$5.50	\$5.00	\$5.50	\$9.20	\$5.00	\$5.30	\$5.00
Clothing.....	1.44	3.25	3.25	3.25	2.50	2.50	2.50	2.10	2.00	2.00	2.00	2.00	2.15	1.93	1.00
Laundry.....	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Doctor, dentist and oculist ³	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Carfare.....	70	75	30	40	35	25	40	40	50	25	50	50	40	31	25
Church.....	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Self-improvement.....	10	10	20	15	20	25	20	60	25	15	15	15	60	13	80
Vacation.....	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Recreation.....	19	50	40	50	50	50	50	25	30	40	15	30	30	18	15
Reserve for emergency ⁴	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mutual Association dues	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Insurance.....	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Incidentals.....	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Newspapers and magazines ⁵	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Totals.....	\$8.71	\$15.30	\$15.25	\$15.50	\$13.50	\$14.40	\$13.97	\$13.75	\$13.92	\$13.20	\$13.50	\$13.90	\$13.00	\$13.75	\$13.00

¹ The budget for the first Brush Wage Board, which was the first wage board budget adopted, is included here for comparison and to show the trend in the budgets since that date.

² Wage Boards up to the Reconvened Brush Wage Boards used the terminology "Doctor and dentist" for this item.

³ The employee members of the Women's Clothing Wage Board, reconvened, favored the following amounts for these items: doctor and dentist, 45 c.; church, 20 c.; vacation, 45 c.; recreation, 45 c.; savings, 50 c.; bringing the total budget to \$15.73. The budget as presented above was favored by all other members.

⁴ The Paper Box Wage Board and Druggists' Preparations Wage Board and the Canning and Preserving and Minor Lines of Confectionery Wage Board combined self-improvement with recreation.

⁵ This item was classified as "savings" by the Knit Goods, Brush, reconvened, Druggists' Compounds, and Canning and Preserving and Minor Lines of Confectionery Wage Boards; as "Reserve for Deficiency" by the Corset Wage Board; and as "Contingent Fund" by the Paper Box Wage Board.

⁶ The Canning and Preserving Wage Board included "insurance" in the figure for "savings."

⁷ Includes "insurance."

⁸ The Brush Wage Board, reconvened, included newspapers, etc., under self-improvement.

⁹ The Millinery Wage Board included "carfare" under Board and Lodging.

¹⁰ Wage Board subsequent to the Paper Box Board, included "newspapers and magazines" under self-improvement.

book "Age, Art and Druggists' Preparations Wage Board and the
Canning and Preservation of Minor Lines of Confectionery Wage Board combined self-
improvement with recreation.

1. The Millinery Wage Board included "surfers" under Board and Lodging.
10 Wage Board subsequent to the Paper Box Board, included "newspapers and maga-
zines" under self-improvement.